

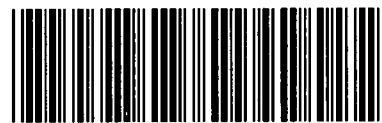
# CREATING OPPORTUNITY

Annual Report and Accounts 2018

Softcat plc

Company Registration number: 02174990

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COMPANIES HOUSE

# CREATING OPPORTUNITY, DELIVERING GROWTH

Our goal is simple: to be the leading IT infrastructure product and services provider in terms of employee engagement, customer satisfaction and shareholder returns. We hope our success will create opportunities for our people and deliver growth for our customers and stakeholders.

We try not to take ourselves too seriously and were founded 25 years ago to be, first and foremost, a fun place to work. In a crowded field we stand out because of that sense of fun; the vibrancy of our culture; and the passion, intelligence and responsibility of our people.

This approach has helped us deliver 52 consecutive quarters of organic revenue and profit growth, 95% employee engagement and customer satisfaction of 97%.

Read more on how we create opportunities for:

**Our offering**

**Our people**

**Our customers**

**Our vendors**

See pages 14 to 21 for more details

## Financial highlights

Revenue £m	Gross profit £m	Operating profit £m
1,081.7	175.2	68.0
832.5	136.3	50.2
672.4	120.7	42.2
596.1	102.8	39.6
504.8	88.5	35.5
Adjusted operating profit £m*	Customer numbers '000**	Gross profit per customer £'000**
70.5	11.9	14.7
51.5	11.4	12.0
46.8	10.7	11.3
40.6	9.9	10.3
35.5	9.3	9.6

## Operational highlights

Revenue growth: 30%

Gross profit growth: 29%

Operating profit growth: 36%

Adjusted operating profit growth: 37%\*

Cash conversion: 98%

Growth achieved across all business lines, offices and customer segments

Employee engagement: 95%

Customer satisfaction: 97%

To read more visit  
[www.softcat.com](http://www.softcat.com)

\* Adjusted operating profit is operating profit before the impact of share-based payment charges.

\*\* Customer numbers have been restated throughout the Annual Report - see page 25.

See pages 24 and 25 for more information on our KPIs

### Strategic report

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# HELPING CUSTOMERS CHOOSE, IMPLEMENT AND MANAGE THE RIGHT TECHNOLOGY

We do many things but, put simply, we help commercial and public sector organisations find the right IT infrastructure for their needs, and then we procure it for them. We can also implement that IT infrastructure as well as deliver a range of ongoing support and managed services. As technology becomes more complex, as the choices available to our customers become both more numerous and more exciting, we are committed to continuing to invest in new capabilities to maintain our relevance to customers.

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## OUR OFFERING

We advise, design, procure, implement and manage technology for businesses and public sector organisations, ranging across software licensing, workplace technology, networking, security, cloud and datacentre.

We do not develop bespoke applications or specialise in industry-specific vertical applications but can partner with third party organisations for these requirements. Our focus is on providing the IT infrastructure and services to keep these applications performing, highly available and secure.

### Workplace technology

### Networking and security

### Cloud and datacentre

See pages 12 and 13 for more on our markets

## OUR TEAM

We passionately believe that if people enjoy what they do, and care about the company they work for, they will do it better. Our culture is the vital ingredient of the outstanding service we deliver to customers.

We recruit many new graduates and apprentices each year, but we are also fortunate to have a very large proportion of the team who have been with us for many years. We think this creates a blend of enthusiasm, hunger, drive, energy and experience that is hard for our competitors to replicate. Our customers receive a very personal and continuous service from their account manager throughout their time working with Softcat, but that account manager can call upon hundreds of specialists, technical experts and service and project managers to deliver the expertise required at the right time.

## AWARD-WINNING SERVICE

**Hewlett Packard Enterprise**  
UK & Ireland Hybrid  
IT Partner of the Year

**VMWARE**  
Global VMware Partner  
Innovation Award 2018

**NUTANIX**  
EMEA Partner  
of the Year 2018

**£1,082m**  
revenue

## OUR VENDORS

We partner with hundreds of different software and hardware vendors to bring the latest and broadest range of technology to our customers, as well as numerous specialist service providers to augment the capabilities of our growing in-house teams.

Strong vendor relationships are a key component of delivering the right outcome for customers, and so we strive to be their partner of choice.

## OUR CUSTOMERS

We have worked hard over the years to develop and expand our offering to suit all segments of the UK market. We have the expertise to serve the corporate mid-market as well as large enterprise customers, and our public sector business now accounts for approximately a third of all turnover. We continue to target further growth in each area.

SMB  
Public sector  
Enterprise

See pages 20 and 21 for more on our partnerships

**SNOW**  
Innovation Partner  
of the Year 2018

**IVANTI**  
Security Partner  
of the Year 2018

**VEEAM**  
Most Significant Project  
of the Year 2018

**MIMECAST**  
Premier Partner  
of the Year 2018

# ANOTHER PROFITABLE YEAR

Following my transition to Chairman of Softcat in April 2018, I am delighted to provide my first report as Chairman on the Company, its performance and prospects. Softcat is a strong business with an excellent track record and we are at an exciting time in our development. I look forward to working with the Board and senior executive team in creating further value for all our stakeholders.

## Performance

It has been another excellent year for Softcat.

We saw very strong performance on all our key metrics during the year. Growth in gross profit, our primary measure of income, was 28.5% to £175.2m and adjusted operating profit increased by 36.9% to reach £70.5m. Growth in operating profit was 35.6% to £68.0m. Revenue growth was especially strong at 29.9% with software, hardware and services all delivering double-digit growth. The

continuing investments in new sales, services and technical resource and the return on those investments is evident in our performance. More information on how we performed can be found in the Chief Executive's Statement on pages 6 to 8 and Financial Review on pages 26 and 27.

## Changes to the Board

In light of my decision to step down as Chief Executive and take on the role of Non-Executive Chairman, the Nomination Committee initiated a search for a new Chief Executive. Our extensive search generated an impressive field of candidates and Graeme Watt stood out for his extensive knowledge of the sector and the reseller channel as well as his strong leadership skills and delivery of growth in very sizeable business units at Avnet and Tech Data. Equally importantly, he understood and was excited by the dynamic, enthusiastic, people-oriented culture at

Britain's 50 Best  
Managed IT  
Companies  
2017

“

It has been another excellent year for Softcat. We saw very strong performance on all our key metrics during the year.”

**Martin Hellawell**  
Chairman

Softcat and its importance to our Company's future success. In Graeme, we have found someone who can nurture the best of what we do today with the experience and dynamism to scale and grow the business yet further. Details of the search are set out on page 43.

### People

The dedication, commitment and camaraderie of Softcat's workforce has always been the key reason for our continued growth and success. It is their hard work in every area of Softcat's business that delivers operational and financial performance. Softcat strives to be an outstanding place to work and a positive contributor in the community and it is our fantastic employees that drive this. On behalf of the Board, I would like to thank all of them for their contribution. Our success this year would not have been possible without them. In the last financial year, we increased our total headcount by 142 colleagues, to continue to build on and expand our capabilities. We will continue to invest in and nurture our people.

### Dividend

Our dividend policy remains a progressive one which targets an annual dividend of between 40% and 50% of the Company's profits after tax in each financial year before any exceptional items. Subject to any cash requirements for ongoing investment, the Board will consider returning excess cash to shareholders over time. We recommend a final dividend of 8.8p, taking the total dividend to 12.1p per ordinary share. In addition, we recommend a special dividend of 15.1p per ordinary share is paid at the same time as the final dividend. Shareholders will be asked to approve the final and special dividends at the AGM on 6 December 2018.

### The year ahead

Graeme has made an excellent start in his new role and our focus will be on supporting him and the leadership team in the coming year. I have been very aware of the need to step back and focus on my role as Chairman leaving Graeme and the team to focus on the day-to-day running of the business. This will continue to be my focus in the year ahead.

Notwithstanding the uncertainties surrounding Brexit, the business is in a confident mood and its relentless focus on customer service and employee engagement provides good grounds for optimism going forward.



**Martin Hellawell**  
Non-Executive Chairman  
17 October 2018

**Our company values are captured in four key words:**

## RESPONSIBLE

We conduct our business with a strong code of ethics and demand honesty and integrity. We take social responsibility seriously, particularly charitable activity. We embrace and strive for diversity in gender, ethnicity, religion, sexuality and special needs; every part of society is equally welcome and as a community we look after each other, particularly in times of need and difficulty.

## INTELLIGENT

We run our business intelligently and look to continuously improve it for the good of employees, customers and shareholders alike. We strive to keep the business as simple as possible, valuing flexibility, and we encourage people to take initiative, challenge how we do things and promote smart ideas, no matter how big or small.

## FUN

We promote a positive, optimistic and energising environment where our employees can come to work and enjoy it. We want our customers to enjoy working with our Company and our diverse personalities and individuals. We celebrate success, we value humility, and we respect and embrace the fact that individuals have different ideas of fun and fulfilment.

## PASSIONATE

We are positive and enthusiastic and we want to do an outstanding job for customers and partners, delivering world-class levels of service. We always strive to improve, there is never room for any complacency, and every individual is passionate about their part in making Softcat a great place to work for everyone.

# A NEW ADDITION

## **How do you and the team feel about FY18 performance?**

It has been another strong performance by the team in a very healthy market. We have been able to deliver significant growth across revenue (+29.9%), gross profit (+28.5%), operating profit (+35.6%) and adjusted operating profit (+36.9%) demonstrating that our model has scaled well and we have stayed focused on our key strategies. In terms of both top and bottom-line performance we have now delivered 52 consecutive quarters of year-on-year growth.

I am pleased that this performance has been recognised outside the Company too, with many notable awards from our vendors including Cisco, HPE and VMware covering a breadth of technology and services. The award from VMware for Partner Innovation is global and it is a sign of our increasing influence with some of our vendors.

Given that our people are the key to our current and future success the awards that recognise performance in this area are particularly pleasing. It was therefore immensely satisfying to receive the School Leaver Awards 2017 – Top Employer for School Leavers in the IT and Technology Sector. We were also recognised by the financial community by winning Megabuyte Quoted25 – Best Performing UK Public Company in Infrastructure Services 2018 and UK Stock Market Awards – Best Technology Plc 2018.

I am particularly pleased with our breadth of performance and lack of reliance on any individual vendor, customer or regional office. We grew revenue for 14 of our top 20 vendors at over 20%, and our top 20 vendors made up a healthy 66% of total sales. All of our regional offices delivered double-digit growth in gross profit, as did each of our customer segments. We are not overly reliant on any customer or vendor.

“

We continue to hit our goals across the business. We have achieved this through our high energy focus on winning new customers and selling more of our technology and services portfolio to existing customers.”

**Graeme Watt**

Chief Executive Officer



# 11,900

11,400 customers in FY17

# £14.7k

£12.0k gross profit per customer in FY17

## What are the key drivers of your success?

The single biggest driver of our success is our people. We invest a tremendous amount of time, money and energy in making sure we are attracting the right talent into the Company and developing and retaining them. We work hard to ensure that our people are trained and developed for success and then appropriately rewarded and recognised for performance. We believe that an engaged, highly committed and motivated workforce is a vital ingredient of outstanding customer service. We seek to provide customers with all of their IT infrastructure needs and the feedback I have received from the many customers I have met positively reinforces that we are increasingly achieving that goal through our agility, proactivity and willingness to go the extra mile. We are pleased to see that our most recent Net Promoter Score of 63.7 compares favourably with companies across all industries.

## What are you seeing in the marketplace?

We have positively embraced the strength of the market during 2018. More than ever, organisations recognise the need for digitisation for survival, differentiation and competitive advantage. In addition, the impact of GDPR and Windows 10 has driven near-term demand for client and datacentre spend which we expect to continue into the current financial year.

More fundamental and longer-term drivers for growth are hybrid infrastructure, security, digitisation and the Internet of Things ('IoT'). It is becoming clear that many organisations have, or will adopt, a hybrid infrastructure strategy placing workloads both into the cloud and into on-premise datacentres. As our customers develop their IT infrastructure they need new technology, design advice, project management support, implementation capability, and ongoing maintenance and monitoring. Softcat caters for all of these needs either directly or through carefully selected third party partners.

The use of data is a central element of this drive to gain competitive advantage through IT. An ever increasing volume of data, driven by factors such as IoT and the proliferation of sensors, must be computed, stored, secured and ultimately analysed.

We will continue to monitor the rising tide of developments in artificial intelligence, machine learning, robotics and other emerging technology areas but as always will be guided by customer needs.

## Have the strategic priorities changed and if so how and why?

Our strategic priorities are very much unchanged. Our simple goals of selling more to existing customers and adding more customers to our roster have worked very effectively and will again be a focus for the coming year. We have a fantastic opportunity to gain more share of wallet and further penetrate an addressable market in which we today only work with around one in five target prospects. That sales focus is underpinned by three supporting priorities. The first is the continued focus on our people and to make sure our culture positively evolves as we grow the business. The second is a focus on operational excellence. We know there is more we can do to improve our systems and processes as our business evolves. The third is to make sure that we continually investigate ways to expand our addressable market and deliver new growth opportunities to our sales teams and our customers.

**Have the strategic priorities changed and if so how and why? continued**

We are very well positioned for further growth in 2019. As already mentioned we have market and market share opportunities across each of our customer segments of SMB, enterprise and public sector and it is up to us to prioritise and deliver on those opportunities. Our South Coast office opened last year and has had a very encouraging start. We are investing in people across all functions and offices to make sure we stay ahead of the growth curve. In particular I look forward to seeing the fruits of our investment in Ireland where we opened our latest regional office in Dublin in August, and the planned office relocations to larger premises in both London and Leeds in the coming year. We have also begun to invest further to support the multinational IT requirements of our enterprise customers.

**What are the key challenges facing Softcat?**

Whilst the macro-economic picture is far from clear I believe the key issue surrounding Brexit will be business confidence. If prices rise due to new tariffs or weakened Sterling then we will seek to pass them on as is normal for the industry. We are working with our vendor and distribution partners to make sure that in the event of any supply chain impacts from changes in processes we are prepared so that there is minimal impact to our customers.

As we grow we need to continue to grow our workforce without compromising the quality of new recruits, so we continue to work hard and do new things to make sure that this does not become a limiting factor for us.

**Your thoughts for FY19?**

We have the leadership team, the people, the strategies and the partnerships in place to deliver on our goals for FY19 and importantly we have strong momentum coming out of the previous financial year.

I would like to take this opportunity to thank each and every one of the Softcat team for their amazing contribution to the reported results for last year and their ongoing focus and execution to achieve further success in the coming year.

We benefited from exceptional market conditions in 2018. Despite current political and economic uncertainty, and notwithstanding tough comparative figures, we are confident of achieving further profitable growth in 2019. Trading in the first ten weeks of the new financial year has been encouraging.



**Graeme Watt**  
Chief Executive Officer  
17 October 2018

# Q&A

with Graeme Watt

## How have you enjoyed the first six months in your role as CEO?

I have enjoyed my first six months enormously where staff, customers and vendors alike have been really welcoming and most helpful. I have learned a lot more about the IT reseller channel and the part Softcat plays as a trusted adviser and making sure that our customers get the right technology information and advice to help them solve business issues or create competitive advantages in their given field.

The Company is clearly performing well so I have focused on identifying and understanding the key drivers for that success and aim to make sure that they are protected, we invest in them and they evolve as we grow the business further.

When I arrived it was obvious that there is a tangible commitment from our people to the organisation, to each other and to our simple and focused sales strategies. Our aim was to make the CEO transition as seamless as possible for our staff, our customers and other partners and I think we have achieved that goal.

## How do you feel about being appointed CEO of Softcat?

Excited and a little bit scared but I feel enormously proud and fortunate. In the 25 years that Softcat has been in existence I am only the third CEO. The two previous CEOs have been enormously successful so I carry the burden of high expectation both inside and outside the Company. There is pressure in every company at the senior level and Softcat's expectations are very positive so I am happy to be in a position to respond to the challenge. I feel fantastically well supported by a great team of people and Directors at Softcat – the energy and appetite for success is incredible. I look forward to leveraging some of my 30 years' IT experience and expertise in a different part of the channel and learning some new tricks too.

## What attracted you to Softcat?

That's an easy one – I wanted to join a company where something special was going on. A high performing company with a strong culture, built to enable people to express themselves, and plans to take its performance to the next level. I wanted to join a company that continually puts its people and customers first and keeps things simple and where everyone feels comfortable being themselves. I wanted to join a company that plays to win and thinks in possibilities.

I wanted a role where it is quick and easy to make decisions and where most of the time is spent taking or executing on decisions rather than being tied up in endless performance reviews. Softcat fulfils those desires and more.

## Why are you the right person to take the business forward?

That's a good question but I am not one to blow my own trumpet – you should really ask the rest of the Board as they selected me after a gruelling process.

My ability not just to fit in and work within the special culture at Softcat but also the fact that I value the culture and am committed to making sure it evolves and remains a key market differentiator for us is one key factor.

I have some deep and meaningful relationships with key EMEA and global vendors which will benefit Softcat as our market becomes increasingly globally led and influenced. I have extensive experience of working internationally, acquiring companies and undertaking ERP transformations, some or all of which may be called upon over time.

I have a good track record of taking businesses to the next level of performance but ultimately I care passionately about the people and the business at Softcat and will give it everything to maintain and even accelerate our performance levels.

# WHAT MAKES US COMPETITIVE

Our people are bright, motivated, driven and enthusiastic. Most importantly they care about the Company they work for and the customers they serve.

## WHAT SETS US APART

### ① Our market share and offerings

A market share of c.6.9% makes us the number two player in our field, but still affords us huge potential for growth. The investments we have made in our product and service offering have created what we believe is as broad and deep a proposition as any in the market.

### ② Our people

Our people are the keystone of our competitive edge. Their passion, intelligence, sense of fun and commitment to the long-term success of our customers delivers a service that stands out from the crowd.

### ③ Our customer relationships

Our growth track record reflects the longevity of our relationships. Our business has grown for 52 consecutive quarters and during that time the number of customers we serve has grown more than threefold.

### ④ Our vendor partnerships

Technology vendors face intense competition and need partners that can accurately, reliably and credibly represent their value to tens of thousands of target organisations in the UK. We believe that the range and depth of our partnerships in the UK market is second to none.

### ⑤ Our financial strength

In a world of risk and leverage, we are proud to be a bit different. We have never had any debt and maintain a strong balance sheet. We have a highly liquid business model and consistently strong conversion of profits to cash, even after capital investments.

## STRATEGY FOR DELIVERY

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Underpinned by our values:

RESPONSIBLE

INTELLIGENT

### We recruit and train great people with high potential

We work with universities and schools across the country and see thousands of candidates each year before selecting those that are right for Softcat. We look for exceptional people with the right attitude.

### We incentivise and engage our people to perform

We create a great place to work where people are rewarded for success. We are known for our unique Company culture and believe it is at the heart of our success.

### We deliver outstanding customer service

We seek to provide truly outstanding levels of service to our customers and we believe that is a direct function of the talent we recruit, the training we give them and their level of engagement.

### We win new customers and sell more to existing customers

We have a strong track record of developing new revenue streams and are fast to move as the market evolves. Despite our success we see more opportunities for organic growth.

## VALUE FOR OUR STAKEHOLDERS

### Customers

**97%**  
customer satisfaction

### People

**95%**  
employee engagement

### Shareholders

**52**  
consecutive quarters of profit growth

**FUN**

**PASSIONATE**

See pages 16 and 17  
to read about our people

# OUR MARKET OPPORTUNITIES

We serve customers across the UK and Ireland, whether medium, large or public sector organisations. In providing their IT infrastructure we operate in a dynamic, growing market that is full of opportunity. A market of not just financial opportunity, but one which also offers a chance to improve our customers' businesses and which delivers prospects for our people to grow and develop their skills. It is a great time for the industry, and we are determined to lead the way.

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## MOVE TO THE CLOUD

'The cloud' can mean many different things. For customers cloud technology can mean a more efficient way to consume workplace software; it might enable faster, more flexible datacentres for their critical applications; or possibly more timely access to vital security updates. In all its different guises, the cloud offers customers new choices. Our account managers and technical experts help customers navigate this complexity and choose the right options for them.

**12-15%**

projected annual growth in  
Cyber Endpoint  
Solutions to 2021

(Source: Cybersecurity Ventures)

**31%**

2018 estimated  
global growth in cloud  
IT infrastructure  
(Source: IDC)

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## CYBER SECURITY

As the world becomes increasingly digital and online, securing data and protecting key assets have never been more important. The proliferation of security solutions in recent times provides customers with incredible choice and intricacy with which they need help. As the threat landscape evolves it is imperative customers upgrade and extend their security programmes. Our security practice is one of the largest in the market and also one of our fastest growing areas of investment.

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## GDPR

The new data security regulations implemented across the EU during 2018 have, along with the ongoing need for businesses to utilise analytics and artificial intelligence to drive competitive advantage, brought data management and storage into sharper focus than ever before. Organisations now need to truly understand the data they hold, where it is, how to control and protect it, and how to analyse and delete it when necessary. Both the right technologies and processes are large parts of the solution to these challenges. We take a measured, consultative approach to helping customers understand and meet their new obligations.

## 163zB

projected size of  
the global data  
sphere in 2025

(Source: IDC)

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## BREXIT

As Britain continues to grapple with the possible outcomes of the 2016 referendum businesses must carefully plot their way through the potential scenarios. We are no different and maintain a close dialogue with both customers and suppliers so we are fully prepared for whatever the future holds. While perhaps not as exposed as some to these risks we are determined to cover all angles and, come what may, will be well placed to support our customers throughout 2019.

To read more on our offering see page 14

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“

It is a privilege to be part of a company operating in an industry with such a dynamic and growing market. The opportunities are there for all but our strategy of investing for growth over the long term has delivered for us in the past. We are not planning on changing that approach any time soon.”

**Graeme Watt**  
Chief Executive Officer

## Our offering

# DIGITAL FIT FOR EVERYONE

The importance of digital technology to both corporate and public sector organisations has never been greater and is growing all the time. Keeping pace with the expanding scale of customer requirements and evolving the range of our technical capabilities is an integral part of our strategy to grow through investment. We have been perfecting this approach for over a decade now and, on the back of a very successful 2018, are stepping up our efforts as we head into 2019.

**c.6.9%**

Softcat UK market share

**“**

Our customers are starting to explore the possibilities of a world in which everything is connected, and we are on that journey with them.”

**Richard Wyn Griffith**  
Solutions Director



## TECHNOLOGY HAS NEVER BEEN MORE IMPORTANT TO OUR CUSTOMERS

In an increasingly digital and connected world the range of technologies available to companies and organisations is proliferating. This creates choice but also complexity and the risk of falling behind. Customers demand their partners for this digital transformation maintain current and relevant skills to embrace and make the most of the opportunities it affords. At Softcat, we see the opportunity to cement our place as trusted partner for the long haul. As a result, we are committed to expanding our capabilities into new and exciting areas each year. This has been part of our strategy for a long time now and, we believe, has produced a proposition that is as broad and deep as any in the market, and more comprehensive than most.

The move to cloud or cloud-like internal infrastructure that requires less manual intervention is an important trend: one which provides opportunity for planning and migration services, as well as ongoing management services to optimise technology across different platforms. In particular we see momentum in new offerings that allow customers to make use of cloud without retraining or redesigning applications. Such an approach enables

customers to exploit advances in the use of data, including deployment of AI-enabled applications. As data proliferates, focus on cyber security necessarily grows. An increase in visible threats, new legislation (including GDPR) and the reality that, in a digital world, trust is hard to gain and easy to lose are driving continued investment in security services and technologies. This is especially the case in those customers preparing for widespread adoption of Internet of Things technologies. Our customers are starting to explore the possibilities of a world in which everything is connected, and we are on that journey with them.

### We work with:

- Public sector
- Central government
- Mid-market
- Service providers
- SMB
- Enterprise
- Lower enterprise
- Micro-market

HOT INDUSTRY THEMES	SOFTWARE	HARDWARE	SERVICES
<b>HYBRID INFRASTRUCTURE</b>	<ul style="list-style-type: none"> <li>■ Infrastructure automation and private cloud</li> <li>■ Public and hybrid</li> </ul>	<ul style="list-style-type: none"> <li>■ Flash and hybrid storage</li> <li>■ Converged and hyperconverged infrastructure</li> <li>▲ Next gen and software-defined networking</li> <li>■ Edge computing</li> </ul>	<ul style="list-style-type: none"> <li>■ Cloud adoption services</li> <li>■ Backup and disaster recovery as a service</li> <li>▲ Cloud connectivity and security</li> </ul>
<b>DIGITAL WORKPLACE</b>	<ul style="list-style-type: none"> <li>● VDI and application delivery</li> <li>▲ Identity and access management</li> <li>▲ Device management and security</li> </ul>	<ul style="list-style-type: none"> <li>● Windows 10 and multi-form factor devices</li> <li>● Edge computing</li> <li>▲ Wireless networks</li> </ul>	<ul style="list-style-type: none"> <li>● Workplace strategy services</li> <li>● Office 365 migration</li> <li>● Managed print</li> <li>● Lifecycle services</li> </ul>
<b>CYBER SECURITY</b>	<ul style="list-style-type: none"> <li>▲ Machine-learning-based endpoint protection</li> <li>▲ Encryption</li> <li>▲ Security event and information management</li> </ul>	<ul style="list-style-type: none"> <li>▲ Firewalls</li> <li>▲ Load-balancing</li> </ul>	<ul style="list-style-type: none"> <li>▲ Security assessment services</li> <li>▲ Managed SIEM</li> <li>▲ Incident response</li> </ul>
<b>DATA AND IT INTELLIGENCE</b>	<ul style="list-style-type: none"> <li>■ Analytics</li> <li>● Visualisation</li> </ul>	<ul style="list-style-type: none"> <li>■ Object storage</li> </ul>	<ul style="list-style-type: none"> <li>■ Data assessment services</li> </ul>

Key: ■ Datacentre and cloud    ▲ Networking and security    ● Workplace technology

See page 22 for more on our strategy

## Our people

# FULL OF PERSONALITY

We think our people are the best in the industry. They are highly capable but most importantly they are motivated and care passionately for their customers. We are proud of our technical capabilities but, without the trust of our thousands of customers nurtured and developed over many years, we would be just another reseller. Our people make us different – their passion, their sense of fun and their integrity. The way they work as a team and look out for each other makes us more than the sum of our parts. Whether a graduate in their first few months of their career or a 20-year veteran (and we have plenty of each), all have something to contribute.

# 1,188

employees as at 31 July 2018

“

Our people are highly capable but most importantly they are motivated and care passionately for their customers.”

**Rebecca Monk**  
HR Director

# 95%

employee  
engagement

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## OUR PEOPLE-FIRST APPROACH

We are extremely passionate about employee satisfaction and endeavour to provide a supportive and encouraging working environment for all employees across all of our offices. When we open a new office it is driven by our people. We give our fantastic teams the opportunity to take the Softcat offering to a new marketplace. Our most recent office opened in Dublin in August 2018.

# 356

new recruits  
during 2018

# 26

apprentices hired  
during 2018

The Company provides an extensive array of benefits including weekly on-site doctor visits, a Share Incentive Plan ('SIP'), as well as many social and sporting activities.

Likewise, we believe in the importance of inspiring our employees to give their best; therefore, everyone is given the chance to qualify for our amazing incentives. We believe hard work should reap extra rewards. Additionally, Softcat strives to support employees in all aspects of life, both inside and outside of the workplace.

Softcat provides exceptional and ongoing training and development opportunities. We have developed bespoke training for many roles to help employees to identify and realise their aspirations, to provide our staff with opportunities to enhance their skills and advance their qualifications.

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## OUR GRADUATE SCHEME

# “

I'm confident that the qualifications, certificates and awards I've received on the programme will help me develop my career as an account manager, as well as an apprentice manager in the future.”

## Our customers

# CREATING COMPETITIVE ADVANTAGE

Our customers have lots of choice and so we can only achieve long-term, organic success in our market if they are truly happy with the service they get. We are proud of our track record of building and retaining trusted relationships over the long term. We have tripled our customer count since 2007 and 93% of our revenue in 2018 came from organisations who had also bought from us in the previous year.

So if there is one single reason why we have delivered sustainable growth then the strength of our customer relationships is it. Despite our success there are still many new customers for us to target and we have lots of growth opportunity in the c.80% of the market we are not yet trading with. Which is why our simple strategy remains focused on the twin goals of winning new customers and selling more to existing accounts.

“

If there is one single reason why we have delivered sustainable growth then the strength of our customer relationships is it.”

**Colin Brown**  
Managing Director

**97%**

customer  
satisfaction rating

## DUMFRIES & GALLOWAY

### The challenge

Dumfries & Galloway Council ('D&GC') needed to rationalise processes and drive down the cost of service delivery in the face of reduced central government funding. In an environment where the biggest challenge is to do more with less, improved mobility for council staff was seen as an essential way to continue to deliver high-quality services and reduce expenditure.

Enhanced mobility can come with added security risks. As many of the services that would benefit most from improved mobility involve handling sensitive data about individuals and organisations, and with the stringent commitments required for GDPR compliance, the need to ensure that any proposed solution would be highly secure was essential.

### Solution highlights

Softcat carried out significant pre-sales work as part of the strict procurement process, including consultations, on-site visits and a five-day proof of concept pilot. Softcat also made D&GC aware of a Microsoft funding package that was available and would enable it to make considerable savings on a full roll-out of Microsoft Enterprise Mobility + Security suite ('EM&S') across the organisation.

Softcat completely remodelled its existing estate by spreading licence types across various agreements that ensured software licensing compliance and realised significant cost savings.

The next phase involved improving the functionality and security of D&GC's mobile infrastructure. After this, the decision was made to migrate to the latest Windows 10 environment as its added security features would ease D&GC's security compliance obligations and enable end users to access the most up-to-date and secure apps and productivity tools.

- Optimised Microsoft licensing across a number of agreements including: Enterprise, Server & Cloud Enrolment, Online Services and Select Agreements
- Enhanced cyber-protection and agile working capabilities
- Microsoft Enterprise Mobility + Security Suite, Windows 10 and Office 365

## McLAREN

### The challenge

Award-winning contractor McLaren Construction wanted a flexible and scalable IT solution which could adapt and develop in line with the business. Its IT infrastructure had been designed when McLaren was a much smaller business and as such did not have the scalability or resilience that McLaren needed.

McLaren wanted to partner with a company which was the right cultural fit, as well as having strong technical competency and excellent knowledge of the various IT technologies which would form the solution.

### Solution highlights

McLaren wanted to invest in products and services which would adapt and scale as its business continued to grow. The combination of Microsoft Office 365 and Azure offered this, as well as providing many other benefits for its business.

For Azure, the core project components were:

- StorSimple – An on-premise SAN product, allowing rapid access to on-premise data whilst also protecting the data in the cloud.
- Backup – As part of the project to run a backup server on premise, Softcat also provided Azure cloud backup services.
- Disaster recovery – Softcat designed, tested and implemented Azure Site Recovery to protect McLaren's Hyper-V and physical workloads.
- Networking – McLaren's combination of MPLS and site-to-site VPN connectivity was upgraded to a managed VPLS WAN with an Express Route into Azure. This provides a private corporate network with an optimised resilient connection directly into the MS Cloud.

For the datacentre requirements, Softcat proposed utilising our hosted datacentre service whereby Softcat would fully manage this service for McLaren. It also decided to upgrade several components in its infrastructure, acquiring Nimble storage and Dell Hyper-V hosts, installed by one of Softcat's internal consultants.

- Strategic partnership between McLaren and Softcat
- Future proof solution
- Migration and consolidation of existing infrastructure to cloud platform

## Our vendors

# IMPROVING PARTNER CONNECTIVITY

We work with hundreds of vendors and partners to bring the latest technology choices to our customers. Our roster comprises the largest tech firms in the world through to exciting start-ups with pioneering new solutions. We listen carefully to the needs of our customers and form the vendor relationships that deliver value for them. We take our responsibilities very seriously and work in close collaboration to ensure we are carefully matching partner solutions to customer needs, delivering good outcomes for both. We are proud of the many awards we have won in recognition of our work in this area through the years, a recent selection of which is shown on pages 2 and 3.

**98%**

of customers say they value  
the quality of our advice

**200+**

vendors

---

“

Softcat is a longstanding Cisco Gold partner. They continue to evolve their software portfolio and capability, delivering examples of great customer outcomes driving digital transformation. They embody a very progressive culture in how they hire, train and retain talent, but also in how they engage with their business partners.”

**Kevin Sparks**

Managing Director, Cisco UK&I

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## OUR VENDOR PARTNERSHIPS

# KEEP IT SIMPLE

We have set ourselves the same two strategic goals each year for more than a decade: to win new customers and to sell more to existing customers. If we can do that, we will be able to invest more in our offering and continue to build scale. Simple.

## SELL MORE TO EXISTING CUSTOMERS

The opportunity to help customers through a complex array of technology choices has never been greater.

### Progress in 2018

Cross-sell programmes and training have delivered significant results over the last twelve months as we have seen existing customers spend more with us across more business lines than ever before.

### Future focus

Further growth in business line penetration and income per customer is targeted for 2019 as we continue to roll out account planning training and deploy new product and service offerings.

### KPIs

- Gross profit per customer increased by 23% during the year
- 97% customer satisfaction

## WIN NEW CUSTOMERS

In 2018 customer numbers grew organically for the eleventh year in succession, but we still only serve around one in five from our target market.

### Progress in 2018

A net 500 new customers were added during the year, with success across each of our key segments: mid-market, enterprise and public sector.

### Future focus

While we traded with 11,900 customers in 2018, that only reflects approximately 20% of the addressable market. We will continue to target new accounts through further investment in our sales force.

### KPIs

- Customer numbers increased by 500 to 11,900
- 97% customer satisfaction



“

One of the key reasons I joined the Company, alongside the attraction of our very special culture, was the admiration I've always had for its clarity of strategy and purpose. The formula is brilliantly simple and has clearly worked. I'm looking forward to maintaining that focus and adding some new strings to the bow over the coming years.”

**Graeme Watt**  
Chief Executive Officer

## DEVELOP OFFERING

**Investment in both internal capabilities and external partnerships has been at the core of our strategy for many years.**

### Progress in 2018

We added 27 new technical staff during 2018, an increase of 15%, including significant investment in our technical design and engineering capabilities. We also funded the development of some exciting new propositions in cloud and security technology.

### Future focus

We will continue the development of new services to bring them to market. We will also expand our ability to fulfil the international procurement needs of our UK customers.

### KPIs

- Gross profit per customer increased by 23% during the year
- 97% customer satisfaction

## BUILD SCALE

**The expansion of our branch network increases our recruitment capacity and customer reach, laying the foundations for sustainable growth.**

### Progress in 2018

During the last twelve months we have established new operations in Southampton and, most recently, in Dublin. We have expanded our capacity in Manchester and identified new homes for both our London and Leeds offices. Our Bristol office has performed and grown strongly following its relocation in the previous year.

### Future focus

We will continue to grow staff numbers across all offices and are excited about the opportunity in our new locations. We will complete the moves to larger premises in both London and Leeds.

### KPIs

- Employee engagement remained high at 95%

# SUMMARY RESULTS AND KPIs

The financial and non-financial key performance indicators shown below demonstrate the Company's progress against strategic goals and delivery of financial performance and shareholder value. These metrics are referred to throughout this report and each is discussed in more detail within the Financial Review on pages 26 and 27.

## FINANCIAL

### Revenue £m

18	1,081.7
17	832.5
16	672.4

### Strategic link

### Comments

- Revenue includes all income from the resale of third party software, hardware and services, as well as the sale of the Company's own services.

### Gross profit £m

18	175.2
17	136.3
16	120.7

### Strategic link

### Comments

- Gross profit comprises revenue net of third party product costs, supplier rebates and certain internal direct costs.

### Operating profit £m

18	68.0
17	50.2
16	42.2

### Comments

- Operating profit comprises gross profit net of administrative expenses.

### Adjusted operating profit £m

18	70.5
17	51.5
16	46.8

### Comments

- Adjusted operating profit is defined as operating profit before the impact of exceptional items and share-based payment charges.
- Growth in adjusted operating profit is the primary measure for delivery of financial returns from our growth strategy.

### Link to Directors' remuneration

- Adjusted operating profit is the sole KPI of reference for the Executive Directors' bonus, reflecting its central role in measuring the delivery of in-year shareholder value.

### Basic earnings per share p

18	27.9
17	20.4
16	16.9

### Comments

- Basic earnings per share ('EPS') is defined as profit after tax divided by the number of shares in issue at the balance sheet date.

### Link to Directors' remuneration

- Basic EPS forms 50% of the weighting of the Executive Directors' LTIP targets.
- Delivery of EPS growth will also contribute indirectly to share price performance, an important element in total shareholder return ('TSR'). TSR also forms 50% of the weighting of the LTIP targets.

### Cash conversion %

18	98
17	97
16	85

### Comments

- Cash conversion is defined as operating cash flow before tax but after capital expenditure, as a percentage of operating profit.
- The five-year average for cash conversion is in excess of 90%, reflecting the highly liquid nature of the business operations and a disciplined approach to working capital management.

## NON-FINANCIAL

### Employee engagement score %

18	<b>95</b>
17	98
16	96

#### Strategic link

#### Comments

- The employee engagement score is derived from responses to an annual survey of all staff.
- Enthusiastic, motivated people are at the core of the Softcat business model and customer proposition.

### Customer satisfaction %

18	<b>97</b>
17	99
16	99

#### Strategic link

#### Comments

- Customer satisfaction is defined as the percentage of customers who rate themselves as either 'satisfied' or 'very satisfied' in response to an annual survey (possible responses also include 'dissatisfied' and 'very dissatisfied'). In 2018 the survey had 928 respondents (2017: 1,199).

### Gross profit per customer £'000

18	<b>14.7</b>
17	12.0
16	11.3

#### Strategic link

#### Comments

- Gross profit per customer is defined as gross profit divided by the number of customers.
- New customers are included in the calculation and tend to create dilution of the metric.
- The growth in this metric therefore demonstrates the high value of ever deepening long-term relationships, and the Company's ability to sell an increasing range of technologies based on trusted partner status.

### Customer numbers '000

18	<b>11.9</b>
17	11.4
16	10.7

#### Strategic link

#### Comments

- Customer numbers are defined as the total number of unique entities that traded with Softcat during the period.
- Growth in this metric demonstrates the ability of the sales force to win new customers while also retaining existing relationships.
- Growth in customer numbers therefore underpins future growth as well as contributing to in-year performance.
- Customer numbers have been restated to remove multiple entities within a common customer group structure.

#### Link to strategy:

Sell more to existing customers

Win new customers

Develop offering

Build scale

Read more in our  
Financial Review overleaf

# INVESTING IN NEW CAPABILITIES

## Revenue, gross profit and gross margin

Revenue growth was very strong at 29.9%, rising to £1,081.7m (2017: £832.5m). This represents an acceleration on growth delivered in the prior year and constitutes a record annual absolute growth step across each of revenue, gross profit and operating profit. Importantly, the growth was broad based, with strong performance across all offices and areas of technology.

In terms of mix, software expanded slightly as a proportion of revenue to 52.1% (2017: 49.8%). This encompassed growth across workplace licences, security licences and asset management technologies. Hardware growth was driven by both client devices and a resurgence in demand for servers following a decline in FY17. Services continue

to deliver profitable growth from both the expansion of our own capabilities and increasing resale of our vendors' services.

Gross profit is the Company's primary measure of income performance and growth of 28.5% to £175.2m (2017: £136.3m) reflects a broadly stable margin to revenue of 16.2% (2017: 16.4%). Gross profit was augmented by £2.0m of foreign exchange-related procurement savings which are not expected to repeat in 2019. These procurement savings boosted margin by 0.2% pts but this was offset by strong growth in our low-margin public sector partner business. Consequently, gross profit margin decreased by 0.2% pts to 16.2%.

“

2018 saw us deliver record growth and profitability, and that success only increases our appetite to invest further in new capabilities.”

Graham Charlton  
Chief Financial Officer

# £70.5m

adjusted operating profit

# 98%

cash conversion

## Customer KPIs

The 22.8% growth in gross profit per customer (2017: 6.5%) was the key feature of the year. Over the last two years the Company has increased focus on gaining share of wallet from existing customers, providing account managers with support and resources to cross-sell an expanding range of products and services.

Customer numbers were up 4.7% to 11.9k (2017: 11.4k). While this rate of growth is slightly lower than in recent years, which in part reflects our increasing focus on fully serving existing customers, the revenue and gross profit contributed by new customers was higher than ever. Adding new customers continues therefore to be a very significant part of the Company's strategy going forward.

As in previous years, revenue is well dispersed across the customer base, with the largest customer accounting for less than 2% of total income.

## Adjusted operating profit and operating margin

Adjusted operating profit increased by 36.9% to £70.5m. This exceptional performance reflects the record growth in gross profit, driven by buoyant market conditions and our strong competitive position to capitalise on the opportunity presented. The Company will continue to make large investments in sales, technical and operational capabilities to target further market share gains and profit growth.

Adjusted operating profit as a percentage of gross profit continues to be our primary measure of operating efficiency, and this metric increased to 40.2% (2017: 37.8%). This increase reflects our ability to drive efficiency from the operating model in the short term to satisfy the exceptional demand we saw in the market. But we anticipate a reduction in this metric in 2019 back towards historic norms and trends as we continue with our investment strategy.

Net adjusted operating profit margin to sales increased to 6.5% (2017: 6.2%).

## Operating profit

Operating profit grew by 35.6% to £68.0m. Adjusted operating profit grew by 36.9% and is shown before share-based payment charges, which increased 91% to £2.5m. Three years on from IPO we now have a mature programme of long-term incentive plans and from 2019 share-based payment charges will not be presented as an adjusting item.

## Corporation tax charge

The effective tax rate for 2018 fell to 19.3% (2017: 20.3%), reflecting the decrease in the blended corporation tax rate from 19.7% to 19.0% in the period. The effective tax rate is marginally above the statutory tax rate due to non-deductible expenses.

## Cash and balance sheet

Cash conversion was again excellent at 98% (2017: 97%), reflecting the ongoing close management of working capital balances as the business continues to grow.

The broad composition of the balance sheet is unchanged, reflecting the simple and efficient business model. The value of stock is minimal due to the close operational partnership with distributors and the value of inventory recognised at year end mainly reflects goods in transit.

The Company's closing cash balance of £72.8m (2017: £61.6m) was up £11.2m, having been replenished by the results of operations following the payment of £45.3m dividends during the year.

## Dividend

A final dividend of 8.8p per share has been recommended by the Directors and if approved by shareholders will be paid on 14 December 2018. The final dividend will be payable to shareholders whose names are on the register at the close of business on 2 November 2018. Shares in the Company will be quoted ex-dividend on 1 November 2018. The dividend reinvestment plan ('DRIP') election date is 19 November 2018.

In line with the Company's stated intention to return excess cash to shareholders over time, a further special dividend payment of 15.1p per share has been proposed. If approved by shareholders at the Company's AGM this would also be paid alongside the final dividend in December 2018, and would bring total cash returned to shareholders in the three years since IPO to £136.8m.



**Graham Charlton**  
Chief Financial Officer  
17 October 2018

# RISK MANAGEMENT AND SECURITY

The Board has established mechanisms to identify, evaluate and manage risks with the aim of protecting its employees, customers and partners and safeguarding the interests of the Company and its shareholders.

## Our approach

The Board has identified the risks facing the Company and considered the likely impact that each could have on the business. This has enabled the Board to target risks on a prioritised basis.

Ownership for each risk has been assigned to a member of the senior management team based upon alignment with operational duties. Risk owners take responsibility for designing appropriate internal controls and policies to mitigate the likelihood and potential impact of the risk materialising.

A risk register is maintained which captures the assessment of each risk together with existing controls and further actions in progress. The risk register is reviewed periodically by both the Board and the senior management team to ensure it remains current as the business and its markets evolve, and that controls remain effective and actions are progressed.

Our risk profile remained stable during the year, with no changes from FY17. An outsourced internal audit function has been established to support and enhance the Company's management of principal risks.

Consideration of the risk profile is factored into strategic planning and annual budgeting.

## The impact of Brexit

The Company continues to monitor the progress of negotiations with the EU and the evolving political situation in the UK. We are also preparing plans that will enable Softcat to adapt to whichever scenario unfolds during 2019, including the prospect of a disorderly no deal exit. This involves close dialogue with our supply chain partners to ensure we support any necessary adaptations in their processes and operating models.

## Risk management framework



Strategy link:	Sell more to existing customers	Win new customers	Develop offering	Scale platform
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## Principal risks and uncertainties

BUSINESS STRATEGY		OPERATIONAL	
Risk	Risk	Risk	Risk
<b>Customer dissatisfaction</b>	<b>Failure to evolve our technology offering with changing customer needs</b>	<b>Cyber and data security, including GDPR compliance</b>	<b>Business interruption</b>
Change from 2017	Change from 2017	Change from 2017	Change from 2017
No change	No change	No change	No change
Potential impacts	Potential impacts	Potential impacts	Potential impacts
<ul style="list-style-type: none"> <li>• Reputational damage</li> <li>• Loss of competitive advantage</li> </ul>	<ul style="list-style-type: none"> <li>• Loss of customers</li> <li>• Reduced profit per customer</li> </ul>	<ul style="list-style-type: none"> <li>• Inability to deliver customer services</li> <li>• Reputational damage</li> <li>• Financial loss</li> </ul>	<ul style="list-style-type: none"> <li>• Customer dissatisfaction</li> <li>• Business interruption</li> <li>• Reputational damage</li> <li>• Financial loss</li> </ul>
Management and mitigation	Management and mitigation	Management and mitigation	Management and mitigation
<ul style="list-style-type: none"> <li>• Graduate training programme</li> <li>• Ongoing vendor training for sales staff</li> <li>• Annual customer survey with detailed follow-up on negative responses</li> <li>• Process for escalating cases of dissatisfaction to MD and CEO</li> </ul>	<ul style="list-style-type: none"> <li>• Processes in place to act on customer feedback about new technologies</li> <li>• Training and development programme for all technical staff</li> <li>• Regular business reviews with all vendors</li> <li>• Sales specialist teams aligned to emerging technologies to support general account managers</li> <li>• Regular specialist and service offering reviews with senior management</li> </ul>	<ul style="list-style-type: none"> <li>• Company-wide information security policy</li> <li>• Appropriate induction and training procedures for all staff</li> <li>• External penetration testing programme undertaken</li> <li>• ISO 27001 accreditation</li> <li>• In-house technical expertise</li> </ul>	<ul style="list-style-type: none"> <li>• Operation of backup operations centre and datacentre platforms</li> <li>• Established processes to deal with incident management, change of control, etc.</li> <li>• Continued investment in operations centre management and other resources</li> <li>• Ongoing upgrades to network</li> <li>• Regular testing of disaster recovery plans</li> </ul>
Link to strategy	Link to strategy	Link to strategy	Link to strategy

## Principal risks continued

Strategy link:	Sell more to existing customers	Win new customers	Develop offering	Scale platform
----------------	---------------------------------	-------------------	------------------	----------------

## Principal risks and uncertainties continued

OPERATIONAL	FINANCIAL	PEOPLE	
Risk	Risk	Risk	Risk
Macro-economic factors including Brexit	Profit margin pressure including rebates	Culture change	Poor leadership
Change from 2017	Change from 2017	Change from 2017	Change from 2017
New risk	No change	No change	No change
Potential impacts	Potential impacts	Potential impacts	Potential impacts
<ul style="list-style-type: none"> <li>• Short-term supply chain disruption</li> <li>• Reduced margins</li> <li>• Reduced customer demand</li> <li>• Reduced profit per customer</li> </ul>	<ul style="list-style-type: none"> <li>• Reduced margins</li> </ul>	<ul style="list-style-type: none"> <li>• Reduced staff engagement</li> <li>• Negative impact on customer service</li> </ul>	<ul style="list-style-type: none"> <li>• Lack of strategic direction</li> <li>• Deteriorating vendor relationships</li> <li>• Reduced staff engagement</li> </ul>
Management and mitigation	Management and mitigation	Management and mitigation	Management and mitigation
<ul style="list-style-type: none"> <li>• Close dialogue with supply chain partners to ensure all potential Brexit scenarios are planned for</li> <li>• Customer-centric culture</li> <li>• Breadth of proposition and customer base</li> </ul>	<ul style="list-style-type: none"> <li>• Ongoing training for sales and operations teams to keep pace with new vendor programmes</li> <li>• Rebate programmes are industry standard and not specific to the Company</li> <li>• Rebates form an important, albeit minority, element of total operating profits</li> </ul>	<ul style="list-style-type: none"> <li>• Culture embedded in the organisation over a long history</li> <li>• Branch structure with empowered local management</li> <li>• Quarterly staff survey with feedback acted upon</li> <li>• Regular staff events and incentives</li> </ul>	<ul style="list-style-type: none"> <li>• Succession planning process</li> <li>• Experienced and broad senior management team</li> </ul>
Link to strategy	Link to strategy	Link to strategy	Link to strategy



# OUR RESPONSIBILITIES

We take our social responsibility seriously, particularly in the areas of charitable activity, minimising our environmental impact and looking after our employees.

**95%**  
employee engagement score

## OUR PEOPLE

Our employees enable us to be highly competitive and help to underpin our competitive edge. Employee satisfaction is a focal point at Softcat to ensure that we provide a supportive and encouraging working environment for all employees, across all offices. We pride ourselves on listening carefully to our employees and make positive improvements to the Company based on their feedback. Each year we conduct an employee satisfaction survey. This year we had a 77% response rate, with the Chief Executive and HR Director reading every response. 95% of all employees regard the Company as very high or high for employee satisfaction.

Back in October we opened the doors of our seventh UK office on the South Coast and more recently in August we proudly opened our first international office in Dublin. Both new offices include a combination of experienced Softcat staff as well as local recruits. These new locations give us a wider reach of graduates from nearby universities.

Our long-term success is reliant on attracting and retaining top talent. We continue to invest in our graduate programme, incessantly reviewing and improving it to ensure we can continue to appeal to talented graduates. Over the year we have also been reviewing our retention plan comprising robust development and reward strategies, which is still ongoing.

We want to ensure we provide our employees with high levels of training and development, allowing them to grow and develop successfully, individually as well as within their teams and departments. A new innovative training app has been recently introduced as well as a complete revamp of our graduate sales training to ensure we are providing some of the best training in the industry that is effective and engaging to all.

Ensuring satisfaction of our employees is at the heart of what we do. We provide an extensive array of benefits including a Share Incentive Plan, weekly on-site doctor visits, as well as many social and sporting activities which appeal to all. Over the year we have also introduced a number of exciting new initiatives including our first health and wellbeing week, giving employees access to a wide variety of activities including free personal training sessions, talks on maintaining a healthy, balanced lifestyle, as well as sessions on financial health.

## OUR PEOPLE CONTINUED

Following on from this we also introduced our first mental health awareness week. Mental health is of high importance to us as a Company and we want to ensure that we support our employees as best we can. As part of our commitment to promoting good mental health we have signed the Time to Change Pledge, to highlight Softcat's commitment to working towards ending the stigma attached to mental health, creating an open and supportive workplace for all. We have also improved and updated our mental health policy, giving employees easy access to information and support available to them. Key employees have now been trained as mental health first aiders.

Whilst we employ a large volume of graduates who embark on a two-week induction when they join, we do not want to limit opportunities based purely on their previous academic achievement. This is why we are very proud of our apprenticeship programme, which offers young people a structured programme of on-the-job learning, with the opportunity for a long-term career with us afterwards.

The scheme has been recognised as outstanding by many awarding bodies, including CRN Sales & Marketing Awards and the National Apprentice Awards. It gives a great opportunity to young, ambitious individuals who want to dive straight into the working world. During the year, apprentices will balance their work responsibilities whilst completing their qualification. To help develop and succeed in their apprentice year, each apprentice is assigned a manager, many of whom started out their Softcat career as an apprentice. As well as the programme being an opportunity for young people to come into the working world, it is also a great opportunity for existing Softcat employees to take on management responsibilities early in their careers.

### Diversity

As a Company we are highly aware that the technology industry is notorious for its gender diversity history and we thus strive to make an impact to improve this within our sector. We want to play our part to ensure that there are as many opportunities for our female employees as there are for our male employees. With that in mind, we ignited our 'Women in Business' networking group on International Women's Day this year, with the objective of supporting our female employees to make the most of the opportunities they have at work. The group will be leading several initiatives, including hearing from inspirational external people that have supported women's progress in the world of work, and instigating a buddy system for female employees. These initiatives aim to act as a springboard to enable the Company to continue tackling some of the challenges that we face in terms of gender diversity.

## Gender breakdown

	Male	Female
<b>Directors</b>		
2018	83%	17%
2017	83%	17%
<b>Executive leadership team</b>		
2018	92%	8%
2017	100%	
<b>Total permanent employees</b>		
2018	71%	29%
2017	71%	29%

We have recently publicised that as part of our ongoing commitment to a diverse workforce that we are now a signatory to the Tech Talent Charter ('TTC'). The TTC is an employer-led initiative to encourage greater diversity in the tech workforce of the UK and was supported in the government's policy paper on the UK Digital Strategy earlier this year. By signing, we aim to demonstrate Softcat's public commitment to improving gender diversity within our industry. Our internal activities reflect many of their initiatives in the charter and we are inspired by the long list of employers pledging their support. Acting together, we hope to make a real change.

We therefore remain highly committed to gender diversity and to providing equal opportunities by recruiting and promoting staff based on their experience, skills, attitude and qualifications. We further acknowledge the recommendation from the Hampton-Alexander review targeting 33% representation of women on FTSE 250 boards by 2020. We believe being highly diverse will help us to remain competitive by combining an extensive variety of backgrounds and views.

# 33%

representation of women on FTSE  
250 boards by 2020

## OUR RESPONSIBILITIES

### Ethics

We are conscious human rights risks exist within our business and supply chain, including labour risk, unsafe workplace conditions and bribery and corruption. We therefore continue to be compliant with the annual reporting requirements contained within Section 54 of the Modern Slavery Act 2015, being a relevant commercial organisation as defined by Section 54, and produced an updated Modern Slavery Statement this year, which is available on our website.

This year we introduced a new Speak Up hotline for all employees to widen employees' channels of raising any issues they may encounter. This provides our employees with an externally provided, secure and confidential channel to voice issues, in addition to internal channels already available.

We have also updated our Speak Up policy to provide employees with a clearer view of how is best to voice any issues they may have. We have also updated our anti-bribery policy alongside this. Underpinning all of this is our Code of Conduct, which is applicable to all employees and those who work for or on behalf of Softcat, setting out the expected standard of behaviour.

### Charities

Softcat strives to be an ethical and responsible workplace, supporting all of our stakeholders. Our dedicated charity team is responsible for managing CSR at Softcat with each office having at least one representative. We recognise the importance of giving back to the communities in which we operate and strive to provide continuing support. This financial year we raised a total of £272,000 and our charity work has helped to raise over £2 million to date. We strive to grow this in the years to come.

**£272,000**  
raised for charity

## OUR RESPONSIBILITIES CONTINUED

### Charities continued

Softcat's annual Charity May Ball continued to be a success in 2018 raising a total of £229,000. We continue to support an array of local and national charities including: Tuberous Sclerosis Association, Prince's Trust, Comic Relief, Macmillan Cancer Research, The Bubble Foundation, Action for Children, St Mungo's and Children in Need. Softcat also supports Wycombe Homeless Connection.

For the sixth year in a row we have supported Dreams Come True, raising a cumulative total of £1.2m, which has made more than 500 dreams come true over this timeframe. Looking ahead to next year, we will be reviewing our nominated charities and look forward to announcing the nominations process very soon.

Furthermore, this year we have endeavoured to further support our employees and to encourage them to give back to the community by introducing charity days, allowing a maximum of two days annually, in addition to holiday allowance, to conduct charity work of their choice.

### Environment

#### Softcat's impact on the environment

The Green Team is well established within Softcat. This team consists of a group of employees based across all the Softcat offices with the aim of reducing Softcat's carbon footprint and promoting green initiatives. Over the years they have helped our employees travel in more eco-friendly ways: purchasing young persons rail cards, running a cycle scheme to help employees purchase bicycles for commuting and providing low emission pool cars. The Green Team has ensured all our offices are ISO 14001 and ISO 50001 certified, introduced a printing solution that this year has saved 94,251 sheets of paper (50,165 sheets saved last year), which is just over five and a half trees, and where possible replaced energy-hungry bulbs with LED lighting which automatically shuts off when not in use.

**94,251**  
sheets of paper saved,  
just over five and  
a half trees

The Green Team is as important as ever and this year it has taken on a new recruit, Softcat's new Chief Executive, Graeme Watt. This year the team has been busy promoting environmental responsibility and sustainability; the effects have been felt both within the Company and in the surrounding areas.

In recent months a group of Softcat employees, along with Graeme Watt, have been out into the surrounding area litter picking. In Marlow parking spaces have been provided for employees who car pool, promoting shared journeys, and electric charging points are being introduced.

The Manchester office is trialling a smart meter with the aim of reducing its energy consumption, which if successful could be rolled out to other Softcat offices.

The wider reaching green initiatives have seen Softcat switch from disposable plastic cups to recyclable paper cups. Softcat has cut down on paper invoices and now 96% of all invoices sent out to customers are e-invoices.

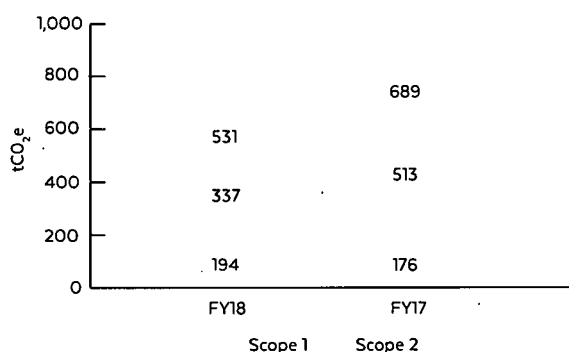
Softcat is constantly looking for ways to further reduce the impact on the environment and contribute positively to local people and surrounding areas and this will continue at pace into the next financial year.

#### GHG emissions

Our emissions have been calculated using the GHG Protocol Corporate Accounting and Reporting Standard (revised edition), together with the latest emission factors from DEFRA and DECC.

- Scope 1 comprises emissions from our pool cars and natural gas burnt in boilers we control.
- Scope 2 comprises electricity consumption in leased and owned buildings.

#### GHG emissions



#### Softcat intensity measurements

We have chosen to present our total emissions relative to the average number of employees, in order to represent how our emissions are impacted by the growth of our business. We are pleased to report a 30.2% reduction per employee.

tCO <sub>2</sub> e	2018	2017
tCO <sub>2</sub> e/£m revenue	0.49	0.83
tCO <sub>2</sub> e/employees	0.46	0.67

# 96%

of all invoices  
sent out to customers  
are e-invoices

# CORPORATE GOVERNANCE

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## **Compliance with the UK Corporate Governance Code**

We have structured this year's report in the following way, based upon the principles set out in the UK Corporate Governance Code.

### **Leadership**

The Board has clear divisions of responsibility and is collectively responsible for the long-term success of Softcat.

See page 38 for more information

### **Effectiveness**

We evaluate the balance of experience, skills, knowledge and independence of the Board to ensure we are effective.

See page 42 for more information

### **Accountability**

We present a fair, balanced and understandable assessment of Softcat's position and prospects. Our decisions are discussed within the context of the risks involved.

See page 46 for more information

### **Relations with shareholders**

Strong relationships with our shareholders are crucial for the Company's success.

See page 44 for more information

### **Remuneration**

Director remuneration is set to promote the long-term success of Softcat.

See page 52 for more information

Dear shareholder

**I am pleased to confirm that your Company has complied with the principles and provisions of the 2016 UK Corporate Governance Code (the 'Code') during the year with the following exceptions:**

- 1) Provision A.3.1 – I was not independent on my appointment as Chairman. When deciding on my appointment the Board recognised that the Code states that chairman should on appointment meet the independence criteria and that ordinarily the chief executive should not go on to be the chairman of the same company. We disclosed the Board's intention to appoint me as Chairman in last year's report, the reasons for my appointment and the discussions which took place with a number of the Company's largest shareholders. This was approved by the shareholders at the Annual General Meeting held on 8 December 2017.**
- 2) Provision B.6.2 – Evaluation of the board should be externally facilitated at least every three years. The Board undertook an internal evaluation of its performance this year. We made the decision to delay the external evaluation because of the changes in the leadership of the Board during the year. We will undertake a full external review next year once Graeme Watt and I have completed a full reporting cycle as Chief Executive and Chairman, respectively. More information on this year's evaluation can be found on page 42.**

I am pleased to introduce this report, which is my first since becoming Chairman on 1 April 2018. My predecessor, Brian Wallace, took his responsibility for ensuring that we met high standards of corporate governance very seriously, and I will continue to do so throughout my tenure.

As you might expect, the Board was very busy during the year. We are pleased that the Company continued to perform well with strong profit growth and cash generation. In his overview, our Chief Executive, Graeme Watt, explains the reasons for this outperformance.

**Changes to the Board**

In light of my decision to step down as Chief Executive and take on the role of Non-Executive Chairman, the Nomination Committee initiated a search for a new Chief Executive. Our extensive search generated an impressive field of candidates and Graeme stood out for his extensive knowledge of the sector and the reseller channel as well as his strong leadership skills and delivery of growth in very sizeable business units at Avnet and Tech Data. Equally importantly, he understood and was excited by the dynamic, enthusiastic, people-oriented culture at Softcat and its importance to our Company's future success. In Graeme, we have found someone who can nurture the best of what we do today with the experience and dynamism to scale and grow the business yet further. Details of the search are set out on page 51.

**Board effectiveness**

I am in frequent and open contact with Graeme and the rest of the Board, and I aim to ensure that at all times the Board fully understands how the business is operating and any risks or challenges in our future. Our programme of Board visits to Softcat regional offices has continued in 2018, including visits to our Marlow, London and Glasgow offices. These visits help to enhance the Board's understanding of business operations as well as providing an opportunity for Directors to have an open question and answer session with employees. This has been particularly helpful this year as it has allowed us a clear view of how well our strategy is translating into the day-to-day activities of the business as a whole.

I met with the Non-Executive Directors without the executive management present. Our discussions focused on performance of the executive management team, the culture of the Board and, linked to that, our priorities for 2019 and how we can continue to improve Board effectiveness.

We carried out an internal evaluation of the performance of the Board this year. I led the process which is described on page 42. I am pleased to report that the outcome of the evaluation was positive and confirmed that the Board and Committees are operating effectively. Particular strengths identified were the performance of the Board and its Committees, their leadership and the support given to the Board.

Having recently been appointed Chairman, and to further develop my understanding of the Board and its ways of working, I also met with each Board member, with a view to looking forward and focusing on how to improve Board effectiveness, rather than looking back at past practice.

**Culture**

We recognise the importance of our role in setting the tone of Softcat's culture and embedding it throughout the Company. Our values and our Code of Conduct underpin everything that we do. Everyone who works for and with us is required to comply with these. An overview of our values can be found on page 5.

**Listening to our shareholders**

Effective communication with our shareholders is fundamental to our success. We strive to communicate our strategy and activities clearly to all our shareholders. We also welcome active engagement with all of our shareholders to answer their questions and receive their feedback. Further details of our approach to shareholder engagement can be found on page 44.

Finally, I would like to thank my fellow Directors for their support since my appointment. Together, I believe we can continue to maintain a strong and effective governance system to enable the business to deliver its strategy, generate shareholder value and safeguard our shareholders' long-term interests.



**Martin Hellawell**  
Non-Executive Chairman  
17 October 2018

# LEADERSHIP

Our business is led by our Board of Directors. Biographical details of the Directors as at 17 October 2018 are as follows:

Tenure of Directors		Directors' experience		Board composition (%)		Key	
Director							
M J Hellawell	12 yrs 7 mths	G Watt	6 mths	G L Charlton	3 yrs 7 mths	L Ginsberg	3 yrs 1 mth
		V Murria	2 yrs 11 mths			P Ventress	3 yrs
		Directors' experience		Board composition (%)		Key	
		6	3	4	4	6	50
		Finance	Marketing	Operations	Management	Technology	
		Chairman	Independent	Non-Executive Directors	Executive Directors		
		Previous roles					
		Martin spent 13 years at Computacenter plc, where he was responsible for the marketing function, ran Computacenter's French subsidiary and led acquisitions in the United Kingdom, Belgium and Germany. He was part of Computacenter's initial public offering team in 1998, ran operations, chaired Computacenter's international joint venture, ICG, and was chief operating officer of the dot-com spin-off Biomni Limited. Martin has also worked for Specialist Computer Centres PLC and for Canalsys.com Limited as an independent consultant. Martin started his career at Miles 33, a software solutions provider for the publishing industry.					
		Previous roles					
		None.					
		Current external commitments					
		• Strategy and development execution					
		• Developing people and teams to be successful					
		• Significant experience within the IT industry					
		• Nearly 13 years' experience at the Company, with a detailed understanding of all operations					
		Key strengths					
		• Strong commercial skills					
		• Business and system transformations					
		• Mergers and acquisition experience					
		• Strong leadership skills and delivery of growth in very sizeable business units					
		• Wealth of financial and risk knowledge					
		Current external commitments					
		None.					
		Previous roles					
		With 30 years of experience in the IT distribution industry, Graeme was most recently senior vice president EMEA, advanced and specialist solutions, Tech Data Corporation ("Tech Data"), a position he held from March 2017. Prior to that, he was president for Avnet Technology Solutions, EMEA for almost seven years and a member of Avnet's global executive committee. He previously spent six years at Bell Micro (as president of global distribution) and his earlier career included roles at Tech Data (president EMEA) and Computer 2000 (Managing Director UK & Ireland). Graeme is a qualified accountant (CAEW).					

See page 40 for more details on our Committees



**GRAHAM CHARLTON**  
Chief Financial Officer

**Appointed to the Board**  
19 March 2015

**Committee membership**  
D

**Key strengths**

- Strong financial and commercial skills
- Extensive experience in both financial and general management
- Significant experience of financing and capital raising

**Current external commitments**  
None.

**Previous roles**

Graham previously spent four years as finance director at comparethemarket.com. Prior to that, Graham spent one year as finance director at See Tickets (the trading name of See Group Limited) and over five years in various roles, including group financial accountant, finance manager and finance director, decision analytics, at Experian Ltd. Graham is a Chartered Accountant and began his career with Andersen.

**LEE GINSBERG**  
Senior Independent Director

**Appointed to the Board**  
16 September 2015

**Committee membership**  
(A) N R

**Key strengths**

- Extensive board experience
- Substantial financial and general management experience working in listed companies
- Wealth of financial and risk knowledge

**Current external commitments**

Non-executive director and chairman of the audit committee at Reach plc, chairman at On The Beach Group plc, deputy chairman, senior independent director and chairman of the audit committee at Patisserie Valerie Holdings plc, non-executive chairman at Oriole Restaurants Limited and director at Cantina Laredo (UK) Limited.

**Previous roles**

Lee spent ten years as chief financial officer of Domino's Pizza Group plc and held the post of group finance director at Health Club Holdings Limited, formerly Holmes Place plc, where he also served for 18 months as deputy chief executive. Lee qualified as a Chartered Accountant at Price Waterhouse.

**VIN MURRIA**  
Independent  
Non-Executive Director

**Appointed to the Board**  
3 November 2015

**Committee membership**  
A N R

**Key strengths**

- A seasoned and successful entrepreneur with extensive board experience
- A strong background in technology-based businesses coupled with a strong network
- Well-developed strategic and commercial skills

**Current external commitments**

Non-executive director at Sophos Group plc and a partner at Elderstreet Investments. Director at Pythagoras Communications Limited.

**Previous roles**

Prior to joining Softcat, Vin spent seven years as the founder and chief executive at Advanced Computer Software plc prior to its acquisition by Vista Equity Partners in 2015, and five years as chief executive of Computer Software Group plc prior to its acquisition by HG Capital and then Hellman & Friedman in 2007. Previously, Vin was also a non-executive director at Zoopla Plc and, Chime Communications plc and chief operating officer at Kewill Systems plc.

**PETER VENTRESS**  
Independent  
Non-Executive Director

**Appointed to the Board**  
1 October 2015

**Committee membership**  
A N (R)

**Key strengths**

- Broad international chief executive experience
- Experienced B2B leader
- Strong leadership skills developed across different cultures and industries
- Well-developed strategic and commercial skills

**Current external commitments**

Chairman of Galliford Try plc and non-executive director of BBA Aviation plc and Staples Solutions B.V.

**Previous roles**

Peter spent five years as chief executive of Berendsen plc. Prior to this he held several senior executive roles including international president at Staples Inc. and chief executive at Corporate Express NV prior to its acquisition by Staples Inc. and held a number of other general management positions across a number of different businesses in a variety of industries.

# LEADERSHIP CONTINUED

## OUR GOVERNANCE FRAMEWORK

### OUR BOARD

#### ROLE AND RESPONSIBILITIES

The Board is collectively responsible for the oversight and success of our business. There is a clear division of responsibilities between the Chairman (who leads the Board) and the Chief Executive (who leads the business).

The Board:

- sets strategy to deliver value to shareholders and stakeholders;
- monitors management activity and performance against targets;
- provides constructive challenge to management;
- sets parameters for promoting and deepening the interest of shareholders; and
- monitors succession planning.

#### MATTERS RESERVED FOR THE BOARD'S DECISION

- Softcat strategy, business objectives and annual budgets.
- Annual and half-year results.
- Material acquisitions, disposals and contracts.
- Major changes to internal controls, risk management or financial reporting policies and procedures.
- Determining risk appetite.
- Changes to capital, corporate or management structure.
- Succession planning for the Board and senior management.

Matters reserved can be found at [softcat.com/investors](http://softcat.com/investors).

#### AUDIT COMMITTEE

Provision of effective governance over:

- the appropriateness of the Company's financial reporting;
- the performance of both the internal audit function and the external auditor; and
- the Company's system of internal control including risk management and compliance activities.

#### NOMINATION COMMITTEE

- Evaluates Board composition and ensures Board diversity and a balance of skills.
- Reviews Executive succession plans to maintain continuity of skilled resource.
- Oversees the performance evaluation of the Board, its Committees and individual Directors.

#### REMUNERATION COMMITTEE

- Sets, reviews and recommends the policy on remuneration of the Chairman, Executives and senior management team.
- Monitors the implementation of the Remuneration Policy.

#### EXECUTIVE LEADERSHIP TEAM

- Focuses on strategy implementation, financial and competitive performance, commercial developments, below Board-level succession planning and organisational development.

#### DISCLOSURE COMMITTEE

- Oversees the accuracy and timeliness of Softcat disclosures including disclosures made in Softcat's half and full-year results.

#### Board and Committee meeting attendance

The Board met eight times during the year at a number of the Company's different offices across the country including a strategy meeting in February 2018. In line with the Company's philosophy to be open and transparent and to engage fully with its employees, the Board has also held question and answer

sessions with employees and received presentations from the leadership team at each office location visited. The Company held three meetings of the Audit Committee, five meetings of the Remuneration Committee and four meetings of the Nomination Committee.

Name	Board	Audit Committee	Remuneration Committee	Nomination Committee	
Martin Hellawell	● ● ● ● ● ● ● ●	— — —	— — — — —	— — — — —	●
Graeme Watt <sup>2</sup>	— — — — — ● ●	— — —	— — — — —	— — — — —	—
Graham Charlton <sup>3</sup>	● ● ● ● ● ● ● ●	— — —	— — — — —	— — — — —	—
Lee Ginsberg	● ● ● ● ● ● ● ●	● ● ●	● ● ● ● ● ● ● ●	● ● ● ● ●	—
Peter Ventress	● ● ● ● ● ● ● ●	● ● ●	● ● ● ● ● ● ● ●	● ● ● ● ●	—
Vin Murria <sup>4</sup>	○ ● ● ● ● ● ● ●	● ● ●	○ ● ● ● ● ● ● ●	○ ● ● ● ●	—
Brian Wallace <sup>1</sup>	● ● ● ● ● ● — —	— — —	— — — — —	● ● ● — —	—

● Attended ○ Did not attend

1. Brian Wallace stepped down from the Board on 31 March 2018.
2. Graeme Watt was appointed to the Board on 1 April 2018.
3. Graham Charlton was unable to attend one meeting due to a close family bereavement.
4. Vin Murria was unable to attend additional adhoc Board, Remuneration and Nomination Committee meetings held on the same day due to scheduling conflicts.

## WHAT THE BOARD DID THIS YEAR

### STRATEGY

The development and implementation of Softcat's strategy has been a key focus for the Board during the year. This has been covered in a number of ways including:

- general updates from the CEO;
- specific strategy review discussions with the Board in February 2018; and
- presentations from members of the management team on strategy implementation in their business line.

See page 22 for more information

### PERFORMANCE MONITORING

- Reviewed monthly reports on performance against budget and forecast.
- Reviewed reports on the financial position of the Company including treasury management.
- Reviewed regular reports from the Chairmen of the Audit, Remuneration and Nomination Committees.
- Approved the year-end and half-year results.

### SHAREHOLDER ENGAGEMENT

- Discussed feedback from investors' and analysts' meetings following the release of our annual and half-year announcements and meetings with existing and potential shareholders.
- Received regular updates from brokers and PR advisers on the market perception of Softcat.
- The Board's intention to appoint Graeme Watt as Chief Executive and the remuneration package for the Chief Financial Officer were discussed with some of the Company's largest shareholders and shareholder feedback provided to the Board.
- Reviewed the proxy voting figures and met with investors at the 2017 AGM.

### PEOPLE, VISION AND VALUES

- Received regular updates on people and HR matters.
- Considered the results of the annual employee survey and the quarterly management surveys.
- Met management teams and employees in our London and Bristol offices.
- Met all new members of the senior management team.

See pages 16 and 17 for more information

### GOVERNANCE AND RISK

- Reviewed reports on governance and legal issues, including developments in UK corporate governance, inside information and disclosure obligations under the EU Market Abuse Regulations, succession planning and executive remuneration.
- Regularly reviewed the Company's principal risks.
- Received regular accounting and regulatory updates from EY, Softcat's external auditor.
- Received annual Director share dealing training.

### OTHER

- Approved the 2018 Annual Report and Accounts.
- Approved the 2018 Notice of AGM.
- Received and reviewed monthly shareholders' analysis reports.

## EFFECTIVENESS

### BOARD EVALUATION 2018

The Board recognises that it continually needs to monitor and improve its performance. This is achieved through annual performance evaluation, full induction of new Board members and ongoing Board development activities.

This year, the Board carried out an internal evaluation of its performance, its Committees and individual Directors. An external evaluation of the Board's performance will be conducted in 2019.

#### STAGE 1

##### COMPREHENSIVE QUESTIONNAIRE

Each Director completed a confidential online questionnaire, designed by the Company Secretary. Each Board Committee undertook a specific self-assessment questionnaire. The process was overseen by the Nomination Committee, assisted by the Company Secretary.

#### STAGE 2

##### EVALUATION

The Chairman reviewed the Directors' contributions and the Senior Independent Director led the review of the performance of the Chairman.

#### STAGE 3

##### REPORTING AND DISCUSSION WITH THE CHAIRMAN AND THE BOARD

A report was prepared based on the completed questionnaires. The Chairman led the discussion of the report with the Nomination Committee and the Board at its meeting in July 2018.

### Conclusions from the 2018 review

The conclusions of this year's review have been positive and have confirmed that the Board and its Committees operate effectively and that each Director contributes to the overall effectiveness and success of the Company.

The main points arising from this year's review included:

**Board changes and succession:** The Board considered that both the roles of the Chairman and Chief Executive are clearly established and whilst the relationship between the Chairman and CEO was developing, there were good early signs. Both Martin Hellawell and Graeme Watt had started their roles proficiently and the Board would continue to support them in carrying out their duties.

The Board would continue to look for talented individuals who can add valuable skills and experience to the Board and continue to have ongoing conversations with potential candidates.

**Strategy:** The Board's testing, developing and monitoring of the Company's strategy was rated highly. The Board would continue to devote time to strategy and consider the strategic issues facing the Company over the next three to five years identified as part of the evaluation.

**Training and development:** Whilst all the Directors confirmed that they were happy with the level of training and development provided, additional training would be provided to Board members in the areas identified in the questionnaire and Directors would have the opportunity to spend more time in the business.

**Board effectiveness:** The performance of the Board since the last Board review was rated positively. The Board would progress the priorities identified in the report for improving the Board's performance in the coming year.

The Board will address these matters during the 2019 financial year and will report on progress in our 2019 Annual Report.

## GRAEME WATT'S INDUCTION

During the year, Graeme Watt joined the Board and his induction programme focused on enhancing his understanding of Softcat and our business, including our markets, customers, competition, business opportunities and risks.

### GRAEME'S INDUCTION PROGRAMME INCLUDED THE FOLLOWING:

#### Our business

- Several one-to-one meetings were held with the members of the Executive Leadership Team to gain an operational overview of all business areas and discuss the strategy and operations within their individual business areas/functions.
- Meetings were held with various senior managers to develop his understanding of Softcat's strategy, people strategy and remuneration, technology, investor relations, finance and risk.
- Several visits were undertaken to all Softcat's offices.
- Question and answer sessions each of the offices.

#### Our Board and governance structure

- Meetings were held with the Chairman, the Chairs of the Board's Committees and all Softcat Directors.
- Training was provided on his duties as a Director and on Softcat's governance structure.

#### Our stakeholders

- Meetings with several Softcat customers covering the different segments of Softcat's business.
  - Meetings with the Company's key partners including vendors and distributors.
  - Meetings with Softcat's investors, analysts and press media. He also received media training.
  - Meetings with Softcat's advisers including the Company's auditor, corporate brokers, lawyers and PR advisers.
- #### Personal development
- Participated in the Deloitte CEO Transition Lab, a personalised programme to support his transition into the role.

## RELATIONS WITH SHAREHOLDERS

### LISTENING TO OUR SHAREHOLDERS

We are committed to proactive and constructive engagement with shareholders and recognise the important and valuable role that shareholders play in safeguarding the Company's governance. The Board received regular updates during the year on the views of our shareholders through briefings and reports from our interaction with shareholders and from our brokers.

In the event that shareholders have any concerns, which the normal channels of communication to the Chief Executive or the Chief Financial Officer have failed to resolve or for which contact is inappropriate, our Chairman or Senior Independent Director are available to address them. Both make themselves available,

when requested, for meetings with shareholders on issues relating to the Company's governance and strategy.

The Board's intention to appoint Graeme Watt as Chief Executive and the changes to the remuneration structure and total remuneration opportunity were discussed with some of the Company's largest shareholders and shareholder feedback provided to the Board. The Board and Committees also receive correspondence from shareholders, institutional investors and proxy voting agencies, typically in the lead up to the AGM.

#### ANALYST AND INVESTOR MEETINGS AND PRESENTATIONS

We hold analyst and investor meetings and presentations following the release of our annual and half-year announcements. We aim to ensure that all questions are comprehensively dealt with at these meetings. We also ensure that the presentations are available on our website.

#### OTHER SHAREHOLDER MEETINGS

Throughout the year, numerous meetings and conference calls were held with existing and potential shareholders. These meetings were attended by either the Chief Executive or the Chief Financial Officer or sometimes both. The meetings focus primarily on trading operations and the implementation of our business strategy. Any significant views expressed are recorded and reported to the Board to keep them up to date with shareholder and investor sentiment.

#### ANNUAL GENERAL MEETING

The 2018 Annual General Meeting will be held on 6 December at Softcat plc, Fieldhouse Lane, Marlow SL7 1LW. Details of the meeting and the resolutions to be proposed are set out in the Notice of AGM which is available to download on our website ([www.softcat.com/investors](http://www.softcat.com/investors)). The Annual General Meeting gives shareholders, in particular our private shareholders, an opportunity to hear about the general development of the business and to ask questions to the Board.

“

We are committed to proactive and constructive engagement with shareholders and recognise the important and valuable role that shareholders play in safeguarding the Company's governance.”

### Board development

The Chairman is responsible for ensuring that all Non-Executive Directors receive ongoing training and development. Our Non-Executive Directors are conscious of the need to keep themselves properly briefed and informed about current issues.

Topics covered at sessions attended by our Directors during the year included cyber security, UK corporate governance reform, EU Market Abuse Regulations, succession planning and executive remuneration. Specific and tailored updates, delivered by the Company's external auditor, were also provided to the members of our Audit Committee during the year covering key themes surrounding financial and narrative reporting accounting and auditory standards.

Regular updates on regulatory and legislative developments are provided to the Board by the Company Secretary.

There is a procedure to enable Directors to take independent legal and/or financial advice at the Company's expense, managed by the Company Secretary. No such independent advice was sought in 2018.

### The Company Secretary also:

- assists the Chairman by organising induction and training programmes and ensuring that all Directors have full and timely access to all relevant information;
- ensures that the correct Board procedures are followed; and
- advises the Board on corporate governance matters.

The removal of the Company Secretary is a matter for the Board as a whole.

### Independence and conflicts

The Board, excluding me as Chairman, is currently comprised of three Independent Non-Executive Directors and two Executive Directors and we therefore comply with the independence requirements of the UK Corporate Governance Code.

The independence of our Non-Executive Directors is reviewed annually by the Nomination Committee (described in the Nomination Committee's Report on page 51). Their independence could be impinged where a Director has a conflict of interest, and the Board therefore operates procedures to identify and manage situations where such a conflict could arise. An element of the procedure operates to restrict a Director from voting on any matter in which they have a material personal interest unless the Board unanimously decides otherwise and, where necessary, Directors are required to absent themselves from a meeting of the Board while such matters are being discussed.

During the year, all Directors confirmed (as they are required to do annually) that they have been able to allocate sufficient time to discharge their responsibilities effectively. Directors are also required to notify me and the Board of any alterations to their external commitments that arise during the year with an indication of the time commitment involved.

[Read more overleaf on our committees](#)

## ACCOUNTABILITY

### Members

L Ginsberg (Chairman)  
P Ventress  
V Murria

### Attendance of the Audit Committee

Name	Committee attendance 2018
L Ginsberg	● ● ●
P Ventress	● ● ●
V Murria	● ● ●
Total meetings held	● ● ●

● Attended ○ Did not attend

“

The Committee continued to oversee the Company's financial reporting, internal control and risk management and compliance processes during the year.”

### Lee Ginsberg

Chairman of the Audit Committee

### Key objectives

The provision of effective governance over the appropriateness of the Company's financial reporting, the performance of both the internal audit function and the external auditor and oversight over the Company's system of internal control.

### Responsibilities

The Board has approved terms of reference for the Committee which are available at [softcat.com/investors](http://softcat.com/investors). These provided the framework for the Committee's work in the year and can be summarised as providing oversight of the:

- appropriateness of the Company's external financial reporting;
- relationship with, and performance of, the external auditor;
- Company's system of internal control, including the risk management framework and the work of the internal audit function; and
- Company's system of compliance activities.

### Membership

The membership of the Committee has been selected with the aim of providing the range of financial and commercial expertise necessary to meet its responsibilities. Given my experience, I continue to be designated as the financial expert on the Committee for the purposes of the UK Corporate Governance Code. In order to ensure that the Committee continues to have experience and knowledge relevant to the sector in which Softcat operates, all of the Non-Executive Directors receive regular updates on business, regulatory, financial reporting and accounting matters. An independent evaluation of the Committee's performance will also be carried out in 2019. There were no changes to the membership of the Committee during the year, all of whom are Non-Executive Directors of the Company.

### How the Committee operates

The Committee met three times during the year and each meeting had full attendance. Meetings of the Committee generally take place on the same day as the Board meeting to maximise the efficiency of interaction with the Board. I report to the Board, as a separate agenda item, on the activity of the Committee and matters of particular relevance to the Board in the conduct of its work.



The external auditor, Ernst & Young LLP ('EY'), is invited to each meeting together with the Chairman, the Chief Executive, the Chief Financial Officer and the Company Secretary.

The Committee also meets separately with each of EY and the Chief Financial Officer without others being present.

### Financial reporting

The Committee's primary responsibility in relation to the Company's financial reporting is to review with both management and the external auditor the appropriateness of the half-year and annual financial statements concentrating on, amongst other matters:

- the quality and acceptability of accounting policies and practices;
- material areas in which significant judgements have been applied or where significant issues have been discussed with the external auditor;
- the clarity of the disclosures and compliance with financial reporting standards and relevant financial and governance reporting requirements, including the UK Corporate Governance Code;
- any correspondence from regulators in relation to our financial reporting; and
- an assessment of whether the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy. This assessment forms the basis of the advice given to the Board to assist it in making the statement required by the UK Corporate Governance Code.

### Accounting policies and practices

The Committee received reports from management in relation to the identification of critical accounting judgements and key sources of estimation uncertainty, significant accounting policies and proposed disclosure of these in the 2018 Annual Report.

Following discussions with management and the external auditor, the Committee approved these critical accounting judgements,

significant accounting policies and disclosures which are set out in note 1 'Basis of preparation' to the financial statements.

### New revenue recognition standard

Throughout the year the Committee has discussed the impact of IFRS 15 on the Company's future accounting policies, procedures and disclosures. In July 2018, the Committee received a report from management detailing the impact of IFRS 15 on the revenue streams of the business and the key judgements involved. The Committee acknowledge that significant areas of judgement were highlighted, particularly when concluding on resold software and third-party support service revenue.

Management further updated the Committee with the results of discussions with senior finance leaders in the European reseller market and how the new standard had been interpreted by others in the industry. The Committee continues to have an open dialogue with the external auditor whilst reviewing and challenging management's conclusions as they complete their robust adoption process.

Following these discussions, the Committee approves the related disclosures laid out in Note 1 of the Financial Statements.

### Regulators and our financial reporting

During the year, the Financial Reporting Council ('FRC') Corporate Review team reviewed the 2017 Annual Report and Accounts. Following its review, the Corporate Review team entered into correspondence with the Company. All correspondence received and the responses provided were discussed with the Committee and the external auditor. Following the conclusion of the FRC's review we have taken the opportunity to improve the clarity of disclosure in relation to:

- revenue recognition; and
- alternative performance measures and adjusting items.

The Committee is committed to improving the effectiveness and clarity of the Company's corporate reporting and has continued to encourage management to consider, and adopt where appropriate, initiatives by regulatory bodies which would enhance our reporting.

### Significant judgements and issues

The significant areas of focus considered and actions taken by the Committee in relation to the 2018 Annual Report are outlined below.

We discussed these with the external auditor during the year and, where appropriate, these have been addressed as areas of audit focus as outlined in the Independent Auditor's Report on pages 76 to 81.

Matter considered	Action
Inappropriate revenue recognition: misstatement of revenue recognised at or near year end	The Committee has reviewed the Company's revenue recognition policy and discussed in detail with management and members of the finance team the processes applied to accurately record revenue at period ends. The Committee also receives detailed monthly reporting on business performance to include revenue recognition data and trends. The Committee discusses the performance and data trends regularly with the Chief Financial Officer. The Committee has concluded that the timing of recognition is in line with current IFRS requirements.
Misstatement of rebate income	The Committee has taken steps to understand the nature and quantum of supplier rebates received by the Company. The Committee receives management information on rebates accrued as part of monthly performance reporting and monitors trends against prior period results. Rebates, and the process to accrue rebates, were the subject of internal audit review in FY17. The Committee is satisfied with the Company's ability to accurately record rebates earned within the financial period.

## ACCOUNTABILITY CONTINUED

### Other matters

The Committee also undertook a range of further activities in relation to the Company's accounting and external reporting in the year:

#### Recent accounting developments

The Committee received regular reporting from management on the Company's implementation of the new revenue recognition standard – IFRS 15 Revenue from Contracts with Customers – which will be effective for FY19.

#### Fair, balanced and understandable

The processes and controls that underpin the Committee's assessment of whether the Annual Report, taken as a whole, is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy include ensuring that:

- all contributors are fully briefed on the fair, balanced and understandable requirement;
- an experienced core team is responsible for the co-ordination of content submissions, verification, detailed review and challenge;
- senior management confirms that the content in respect of its areas of responsibility is considered to be fair, balanced and understandable; and
- the Committee receives an early draft of the Annual Report to enable timely review and comment.

These processes allowed us to provide positive assurance to the Board to assist them in making the statement required by the UK Corporate Governance Code.

#### Going concern and viability statement

The Committee received a report on the Company's viability statement. This report enabled the Committee to evaluate a stress test of the Company's three-year profit and loss, balance sheet and cash flow plan against the impact of key risks selected from the risk register. The strength of the Company's balance sheet was comfortably able to absorb the impact of the stress test. Accordingly, the Committee has considered and recommended to the Board the viability statement which seeks to examine the Company's longer-term solvency and viability, and which is detailed on page 74. It was agreed that three years continued to be an appropriate timeframe on which to base the long-term viability statement as it is in line with the strategic planning process undertaken by the Company and reflects the pace of change in the technology sector.

### External audit

The Committee has primary responsibility for overseeing the relationship with, and performance of, the external auditor. This includes making the recommendation on the appointment, reappointment and removal of the external auditor, assessing its independence on an ongoing basis and negotiating the audit fee.

#### Auditor appointment

EY was appointed as the Company's external auditor in July 2013 following an audit tender. The Company will be required to put the external audit contract out to tender by 2023. In addition, EY will be required to rotate the audit partner responsible for the Company audit every five years and, as a result; the lead audit partner changed during the year. David Hales replaced Karl Havers as the lead audit partner for the financial year commencing 1 August 2017.

The Committee continues to review the auditor appointment and the need to tender the audit, ensuring the Company's compliance with reforms of the audit market by the UK Competition and Markets Authority. Accordingly, the Company confirms that it complied with the provisions of the Competition and Markets Authority's Order for the financial year under review. For the financial year ending 31 July 2019, the Committee has recommended to the Board that EY be reappointed under the current external audit contract and the Directors will be proposing the reappointment of EY at the Annual General Meeting in December 2018.

#### Audit risk

At the start of the audit cycle we received from EY a detailed audit plan identifying its audit scope, planning materiality and assessment of key risks.

The audit risk identification process is considered a key factor in the overall effectiveness of the external audit process, and the key risks for the 2018 financial year were as follows:

- inappropriate revenue recognition; and
- misstatement of rebate income.

These risks are regularly reviewed by the Committee to ensure the external auditor's areas of audit focus remain appropriate.

#### Working with the auditor

We hold private meetings with the external auditor to provide additional opportunity for open dialogue and feedback from the Committee and the auditor without management being present.

Matters typically discussed include the external auditor's assessment of business risks, the transparency and openness of interactions with management, confirmation that there has been no restriction in scope placed on it by management, the independence of its audit and how it has exercised professional scepticism. I also met with the external lead audit partner outside the formal Committee process.

### Effectiveness of the external audit process

The Committee reviewed the quality of the external audit throughout the year and considered the performance of EY, taking into account the Committee's own assessment and the conclusions of the FRC's Corporate Review team (mentioned on page 47) and the firm-wide audit quality inspection report issued by the FRC in June 2018.

Based on this review, the Committee concluded that there had been appropriate focus and challenge on the primary areas of audit focus from EY.

### Independence and objectivity

The Committee has a policy governing the engagement of the external auditor to provide non-audit services. This precludes EY from providing certain services. The policy can be found at [softcat.com/investors](http://softcat.com/investors).

For certain specific permitted services, the Committee has preapproved that EY can be engaged by management, subject to the policies set out above, and subject to a total 10% of the current external audit fee on an annual basis.

For all other services or those permitted services that exceed these specified fee limits, I, as Chairman, or in my absence another Committee member, can preapprove permitted services.

The Committee also received confirmation from EY that there are no relationships between the Company and EY that may have a bearing on its independence.

For the 2018 financial year, the Committee considered the ongoing fee proposal and, following the receipt of formal assurance that its fees were appropriate for the scope of the work required, agreed a charge from EY and related member firms of £242,500 for statutory audit services.

In addition to the statutory audit fee, EY and related member firms charged the Company £24,000 for audit-related services primarily in connection with the review of the Company's ongoing IFRS 15 assessment and related disclosures. EY also charged the Company £12,500 for non-audit services for advice in respect of regulatory correspondence. Further details of the fees paid, for audit and non-audit services, to EY for the 2018 and 2017 financial years can be found in note 3 to the financial statements.

### Internal control and risk management

The Committee has the primary responsibility for the oversight of the Company's system of internal control, including the risk management framework and the work of the internal audit function.

### Assessment of the Company's system of internal control, including the risk management framework

The Company's risk assessment process and the way in which significant business risks are managed is a key area of focus for the Committee. Our activity here was driven primarily by the Company's assessment of its principal risks and uncertainties, as set out on pages 28 to 30.

The Company has in place an internal control environment to protect the business from the material risks which have been identified. Management is responsible for establishing and maintaining adequate internal controls over financial reporting and we have responsibility for ensuring the effectiveness of these controls.

The Committee has completed its review of the effectiveness of the Company's system of internal control, including risk management, during the year and up to the date of this Annual Report, in accordance with the requirements of the Guidance on Risk Management, Internal Control and Related Financial and Business Reporting published by the FRC.

We confirm that no significant failings or weaknesses were identified in the review for the 2018 financial year and allowed us to provide positive assurance to the Board to assist it in making the statements required by the UK Corporate Governance Code. Where areas for improvement were identified, processes are in place to ensure that the necessary action is taken and that progress is monitored.

### Internal audit

Monitoring and review of the scope, extent and effectiveness of the activity of Grant Thornton LLP ('Grant Thornton'), the Company's internal auditor, is regularly considered by the Committee. We approve the annual audit plan prior to the start of each financial year and receive updates from Grant Thornton on audit activities, progress against the approved audit plan, the results of any unsatisfactory audits and the action plans to address these areas.



**Lee Ginsberg**  
Chairman of the Audit Committee  
17 October 2018

## EFFECTIVENESS

### Members

M J Hellawell (Chairman)  
L Ginsberg  
V Murria  
P Ventress

### Attendance of the Nomination Committee

Name	Committee attendance 2018
B Wallace <sup>1</sup>	● ● ● —
L Ginsberg	● ● ● ●
V Murria <sup>2</sup>	○ ● ● ●
P Ventress	● ● ● ●
M J Hellawell	— — — ●
Total meetings held	● ● ● ●

● Attended ○ Did not attend

#### Note:

1. Brian Wallace retired from the Board on 31 March 2018.
2. Vin Murria was unable to attend an additional adhoc committee meeting due to scheduling conflicts.

“

The Committee continued its work of ensuring the Board composition is right.”

### Martin Hellawell

Chairman of the Nomination Committee

### Key objectives

To ensure the Board and executive leadership comprises individuals with the necessary skills, knowledge and experience to be effective in discharging its responsibilities.

### Responsibilities

The Board has approved terms of reference for the Committee which are available at [softcat.com/investors](http://softcat.com/investors). These provided the framework for the Committee's work in the year and can be summarised as follows:

- assessing the composition of the Board and making recommendations on appointments to the Board and senior executive succession planning; and
- overseeing the performance evaluation of the Board, its Committees and individual Directors.

### Membership and how the Committee operates

I was appointed Chairman of the Committee on 1 April 2018, following Brian Wallace's retirement on 31 March 2018. There were no other changes to the membership of the Committee during the year, all of whom are Non-Executive Directors of the Company.

The Committee met four times during the year. Meetings of the Committee generally take place on the same day as the Board meeting to maximise the efficiency of interaction with the Board and I report to the Board, as a separate agenda item, on the activity of the Committee and matters of particular relevance to the Board in the conduct of its work.

The Chief Executive is invited to each meeting together with the Chief Financial Officer.

### Chief Executive succession

In light of my decision to step down as Chief Executive and take on the role of Non-Executive Chairman, the Committee considered the skills and experience desired in my successor and prepared a candidate profile. The Committee appointed an independent search and selection agency, Odgers Berndtson ('Odgers'), to assist in the search for suitable candidates. Odgers had no prior connection with the Company.

The criteria for the selection of the new Chief Executive included:

- leadership of a business of scale;
- a track record of driving strategic growth; and
- an understanding and appreciation of the Company's culture and values.

Our extensive search generated an impressive field of candidates and Graeme Watt stood out for his extensive knowledge of the sector and the reseller channel as well as his strong leadership skills and delivery of growth in very sizeable business units at Avnet and Tech Data. Equally importantly, he understood and was excited by the dynamic, enthusiastic, people-oriented culture at Softcat and its importance to our Company's future success. In Graeme, we believe we have found someone who can nurture the best of what we do today with the experience and dynamism to scale and grow the business yet further.

### Assessment of the independence of the Non-Executive Directors

The Committee and the Board are satisfied that the external commitments of its Chairman and other Non-Executive Directors (set out on pages 38 and 39) do not conflict with their duties and commitments as Directors of the Company. Our Directors must:

- report any changes to their commitments to the Board;
- notify the Company of actual or potential conflicts or a change in circumstances relating to an existing authorisation; and
- complete an annual conflicts questionnaire.

Any conflicts identified are considered and, as appropriate, authorised by the Board.

All Directors will retire from the Board and submit themselves for election or re-election at the AGM.

The Committee reviewed the independence of all the Non-Executive Directors. All Non-Executive Directors are considered independent and their contributions continue to be effective. They have all submitted themselves for re-election at the 2018 AGM.

The Executive Directors' service contracts and Non-Executive Directors' appointment letters are available for inspection at our registered office and at our AGM.

### Board evaluation

We oversaw the internal evaluation of the Board and its Committees. A description of the evaluation is set out on page 42.

### Succession planning

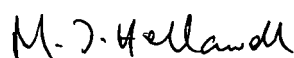
We received presentations on succession planning for senior management throughout the year from the Chief Executive and HR Director. We will keep succession planning under review and monitor the progress and success of the development plans which have been established for relevant employees with a particular focus on ensuring over time all senior management positions have at least one internal successor.

We recognise the need to continually look for talented individuals who can add valuable skills and experience to our Board. We have ongoing conversations with potential candidates. As and when we find individuals with the right skillset and we have the requirement, we will appoint them to the Board.

### Diversity

The Company acknowledges the importance of diversity and inclusion to the effective functioning of the Board. This includes diversity of skills and experience, age, gender, disability, sexual orientation, cultural background and belief. Currently, 17% of our Board roles are held by women. The Board aims to have 33% of Board positions held by women by the end of 2020. We also endeavour to only use the services of executive search firms which have signed up to the Voluntary Code of Conduct on Gender Diversity.

Diversity extends beyond the boardroom. The Board supports management in its efforts to build a diverse organisation.



**Martin Hellawell**

Chairman of the Nomination Committee

17 October 2018

## CHAIRMAN'S ANNUAL STATEMENT

### Members

P Ventress (Chairman)  
L Ginsberg  
V Murria

### Attendance of the Remuneration Committee

Name	Committee attendance 2018
L Ginsberg	● ● ● ● ●
P Ventress	● ● ● ● ●
V Murria <sup>1</sup>	○ ● ● ● ●
Total meetings held	● ● ● ● ●

● Attended ○ Did not attend

#### Note:

1. Vin Murria was unable to attend an additional adhoc committee meeting due to scheduling conflicts.

“

The Committee has applied the Remuneration Policy in support of the key business decisions during a year of change.”

### Peter Ventress

Chairman of the Remuneration Committee

### Structure of the report

Annual Statement  
(pages 52 to 55)

Directors' Remuneration Report 'at a glance'  
(pages 56 to 61)

Annual Report on Remuneration  
(pages 62 to 68)

### Dear shareholder

This year has been one of both significant change and significant progress at Softcat. In April, Graeme Watt became the new CEO, taking over from Martin Hellawell, who has in turn moved to a new role as Company Chairman. Graeme was appointed after an extensive search by the Nomination Committee to ensure that we brought in a person with the correct skillset to take the business forward as it continues to mature as a listed company.

Company performance over 2017/18 remained very strong:

- Revenue growth: 29.9%
- Gross profit growth: 28.5%
- Adjusted operating profit growth: 36.9%
- Employee engagement: 95%
- Customer satisfaction: 97%

We are proud of the Company's continued strong performance throughout the year.

The continued effectiveness of the senior management team in implementing the Company's strategy has been substantiated by the over achievement of the Company's KPIs (outlined on pages 24 and 25), in particular our strong performance against our operating profit targets which resulted in 100% of the maximum bonuses being earned by the Executive Directors.

### Changes to the remuneration package for the CEO

The appointment of a new CEO has precipitated a change in the CEO remuneration package at Softcat. At the time of the IPO, Martin was appointed as CEO on a base salary of £200,000 with a maximum annual bonus of 200% of salary and an annual LTIP award of 200% of salary.

The base salary was set substantially below the market to reflect that Martin would be primarily rewarded through the performance of his shareholding (7.51% of the issued share capital on IPO). The Committee felt it was appropriate to provide some leveraging to performance through the incentives and set these at a median to upper quartile level to provide a total remuneration package in the lower quartile.

The Committee recognised at the time that this remuneration was heavily influenced by Martin's circumstances and that when seeking to recruit a successor, a different approach to remuneration was likely to be required given that any new CEO would not have the substantial shareholding of Martin on joining the Company.

When considering the recruitment of a new CEO, the Committee determined in advance the approach it would adopt. The key components were:

- The remuneration should be rebalanced towards the fixed element by increasing salary levels to reflect the size and the responsibilities of the roles in Softcat today (median by market capitalisation in the FTSE 250).
- Incentive opportunities as a percentage of salary should be decreased to reflect:
  - the higher absolute opportunities which would otherwise be available because of the higher salaries; and
  - the desire of the Committee to encourage Executives to take less risk through reducing the leveraging in incentives to reflect the maturing nature of the Company.
- To ensure that the total remuneration following any changes was within the lower quartile of the FTSE 250 to reflect the Committee's view that the Company's business was comparatively more straightforward than some others within the FTSE 250.

The Committee concluded that for Graeme, a package with a higher fixed element, balanced by a reduced incentive opportunity, was appropriate. Graeme was appointed CEO with a salary of £450,000, with a maximum annual bonus of 100% of salary and an annual LTIP award of 100% base salary. These arrangements, along with other elements of Graeme's remuneration, are in line with Softcat plc's Remuneration Policy approved by shareholders in 2016.

In order to provide additional context, the table below sets out external comparator data for FTSE 250 CEO roles. As can be seen from the table, Graeme's remuneration is positioned below the lower quartile.

CEO £'000			Market cap (three-month average)	Base salary	Annual bonus (as % of salary)	Total cash	LTIP (as % of salary)	Total direct remuneration
FTSE 250	Target	Median	1,488	560	75%	874	120%	1,951
		LQ	1,031	500	63%	594	90%	1,503
	Max	Median	1,488	560	150%	1,337	200%	2,380
		LQ	1,031	500	125%	1,040	150%	1,763
Graeme Watt (CEO)	Target		1,431	450	60%	720	50%	945
	Max		1,431	450	100%	900	100%	1,350

## CHAIRMAN'S ANNUAL STATEMENT CONTINUED

### Changes to the remuneration package for the CFO

Following the appointment of the new CEO, and in line with our commitment to move Graham Charlton's remuneration to be more in line with external comparators, the Committee has decided to restructure Graham's remuneration such that it more closely reflects the approach now in place for the CEO, by increasing the fixed element and reducing the variable earnings opportunities. In summary, the changes to the package are as follows:

- increase basic salary from £200,000 to £300,000;
- reduce maximum annual bonus from 120% to 100% of salary; and
- reduce maximum LTIP awards from 200% to 100% of salary.

The Committee's view is that this restructuring provides a package and approach which is more aligned to the shape of package which is operated in the external market as well as being aligned to the package provided to the new CEO on his appointment. As such, the Committee views the approach as appropriate, and one which is aimed at retaining Graham, particularly as he continues to develop his experience as CFO of a listed FTSE 250 business.

In order to provide additional context, the table below sets out the comparison data for FTSE 250 CFO roles. As can be seen from the table, the proposed package is positioned below the lower quartile.

CFO £'000			Market cap (three-month average)	Base salary	Annual bonus (as % of salary)	Total cash	LTIP (as % of salary)	Total direct remuneration
FTSE 250	Target	Median	1,488	370	75%	633	120%	945
		LQ	1,031	320	53%	539	90%	790
	Max	Median	1,488	370	125%	837	200%	1,400
		LQ	1,031	320	100%	695	150%	1,139
Graham Charlton (CFO)	Target		1,431	300	60%	480	50%	630
	Max		1,431	300	100%	600	100%	900

### What we have done during the year

- We have reviewed and confirmed the new remuneration package for our new Chief Executive Officer, Graeme Watt.
- In light of the change of CEO, the Committee has reviewed the base salary and overall remuneration structure for our Chief Financial Officer, Graham Charlton. The changes laid out above align his remuneration package with that of the new CEO and the wider market.
- Reviewed the fees for the Non-Executive Directors (see pages 62 and 68).
- Performed a review and calibration of the annual bonus metrics, to ensure that the annual bonus is effective going forward. Further detail of the annual bonus is provided on page 58.
- Reviewed the performance targets for the 2018 LTIP award and made awards under LTIP for the Executive Directors, Executive Leadership Team and selected senior managers. Grant levels are consistent with our normal award policy. Further details are provided on pages 58 and 63.
- Corporate governance update to review the required changes in remuneration reporting and corporate governance best practice following the publishing of the FRC's new 2018 UK Corporate Governance Code.



### In conclusion

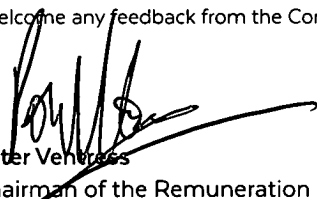
With the introduction of Graeme Watt as the new CEO of Softcat, this year was one of significant change at the top of the Company for the first time since Softcat's IPO in 2015. Our focus was ensuring that the remuneration package for Graeme fit both within the Remuneration Policy and the expectations of the market.

We believe the Remuneration Policy remains fit for purpose and will subsequently remain the same for this year, the final year of its implementation following the shareholder vote in 2016. Next year, we will focus on a wider review of the Remuneration Policy ahead of its renewal in 2019. This will incorporate the changes to the UK Corporate Governance Code and new reporting requirements as well as a full review of the structure of the remuneration package and how it aligns with Company strategy.

The Annual Report on Remuneration (pages 52 to 68) together with this letter will be subject to an advisory shareholder vote at the forthcoming AGM on 6 December 2018. It details decisions and actions taken by the Committee based on the performance of the Company and remuneration outcomes.

Our goal has been to be thoughtful and clear in the layout of the report and I look forward to receiving your support for the resolution seeking approval of the Annual Report on Remuneration at our forthcoming AGM.

I welcome any feedback from the Company's shareholders.



**Peter Ventress**  
Chairman of the Remuneration Committee  
17 October 2018

#### Notes:

This report has been prepared in accordance with Schedule 8 to the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008 as amended in 2013 and the provisions of the current Corporate Governance Code and the Listing Rules. The report consists of two sections:

- the Annual Statement by the Remuneration Committee Chairman and associated 'at a glance' section, containing a summary of our approved Remuneration Policy; and
- the Annual Report on Remuneration, which sets out payments made to the Directors and details the link between Company performance and remuneration for the 2018 financial year.

The Chairman's Annual Statement and the Annual Report on Remuneration will be subject to an advisory vote at the AGM.

## PART A – AT A GLANCE

### INTRODUCTION

In this section, we set out our Remuneration Policy, its link to corporate strategic objectives and the performance and remuneration outcomes for the 2018 financial year.

#### Our Remuneration Policy and its link to our Company strategy

The Company's strategy is laid out on pages 22 and 23.

Ensuring the alignment of the proposed Remuneration Policy to the Company strategy was key for the Remuneration Committee in developing the proposed Policy below in conjunction with our core principles of remuneration.

The key elements of the Company's strategy and how its successful implementation is linked to the Company's remuneration policy are set out in the following table.

Remuneration Policy (from the date of shareholder approval)	Strategic priorities				
	Generate sector-leading value for shareholders	Growth in profit from existing customers	Win new customers	Equity ownership and retention of shares	Retain and reward executive team to deliver the strategy
<b>Annual bonus</b> The maximum bonus (including any part of the bonus deferred into an Annual Bonus Plan ('ABP') award deliverable under the ABP) will not exceed 200% of a participant's annual base salary. For 2019, the maximum bonus opportunity is 100% for the CEO and CFO respectively.	✓	✓	✓	✓	✓
<b>Adjusted operating profit</b> The key performance indicator for the Company. The Committee believes that the Directors should focus on this key metric during the financial year to maintain high profit growth and the success of the business to deliver value for our shareholders. Growth in this metric is a direct demonstration of the successful execution of our business strategy, including winning new customers and growth of profit from existing customers.					
<b>LTIP</b> Maximum annual award is normally 200% of salary. Awards will vest at the end of three years. For 2019 the performance conditions for awards are equally weighted between: <ul style="list-style-type: none"> <li>• earnings per share ('EPS') growth; and</li> <li>• comparative total shareholder return ('TSR').</li> </ul> For 2019, the maximum annual award is 100% for the CEO and CFO respectively.	✓	✓	✓	✓	✓
<b>EPS and TSR</b> The success in maximising profit growth will be measured through the long-term EPS growth targeted by the LTIP. In addition, sustained value generation will be reflected in the share price of the Company, which will be measured through the Company's TSR performance under the LTIP.					
<b>TSR</b> The generation of profit growth targeted by the annual bonus will help enhance the value of the Company, which will be measured through the success of the Company's TSR performance against its comparators (a performance condition under the LTIP).					
<b>EPS</b> An incentive to grow this market in the longer term is provided through EPS growth targeted by the LTIP. The success of this element of the strategy should be reflected in long-term TSR performance.					
<b>Share Incentive Plan ('SIP')</b>				✓	✓
<b>Minimum shareholding requirements</b> <ul style="list-style-type: none"> <li>• Chief Executive: 200% of salary</li> <li>• Chief Financial Officer: 150% of salary</li> </ul>				✓	

#### Our core principles of remuneration:

- to ensure Senior Executives are attracted, retained and motivated to drive the next stage of development in the Company as a listed organisation;
- to incentivise the management team in extending the Company's position in the IT infrastructure solutions industry; and
- to deliver long-term sustainable growth.

### Statement of consideration of shareholder views

The Committee takes the views of the shareholders seriously and these views are taken into account in shaping Remuneration Policy and practice. Shareholder views are considered when evaluating and setting the remuneration strategy and the Committee commits to consulting with key shareholders prior to any significant changes to its Remuneration Policy.

The Committee consulted with major shareholders to explain and provide rationale for changes to the CEO package and as a result of this rebalancing, the changes introduced to the CFO's package. Shareholder response was broadly positive and the rationale for the changes and the proposed approach received support from the majority of those contacted.

The Committee consulted with the Company's key shareholders along with the Investment Association ('IA') and the Institutional Shareholder Services ('ISS') in developing our Remuneration Policy and was delighted to receive 99.6% of votes for from our shareholders at our 2016 AGM. The advisory vote for the Annual Report on Remuneration at the 2017 AGM received 99.94% votes for.

### Considerations of employment conditions elsewhere in the Company

The Remuneration Policy for all employees is determined in terms of best practice and ensuring that the Company is able to attract and retain the best people. This principle was followed in the development of our Policy.

The remuneration strategy of the Company has been designed to ensure all employees share in its success. This is facilitated through the annual bonus and LTIP for Executive Directors and for some members of the senior team and the SIP for all employees.

The table below shows how our incentive schemes support the Company strategy.

Plan	Purpose	Eligibility	Strategic objectives				
			Generate sector-leading value for shareholders	Growth in profit from existing customers	Win new customers	Equity ownership and retention of shares	Retain and reward executive team to deliver the strategy
SIP	To broaden share ownership and share in corporate success over the medium term.	All employees				✓	✓
Annual bonus	Incentivise and reward short-term performance. At senior level, an element of bonus is deferred in shares.	Executive Directors, senior executives, senior managers and managers	✓	✓	✓	✓	✓
LTIP	Incentivise and reward long-term performance.	Executive Directors, senior executives and senior managers	✓	✓	✓	✓	✓

The Company does not use remuneration comparison measurements nor have employees been consulted directly on the Policy. In setting the Remuneration Policy for Directors, the pay and conditions of other employees of the Company are taken into account, including any base salary increases awarded.

The Committee is provided with data on the remuneration structure for management-level tiers below the Executive Directors and uses this information to ensure consistency of approach throughout the Company.

## PART A – AT A GLANCE CONTINUED

### How we performed during the 2018 financial year (audited)

In respect of FY18, the bonus awards payable to Executive Directors were agreed by the Committee having carefully reviewed the Company's results. The performance measures and targets under the Annual and Deferred Bonus Plan for the 2018 financial year and the extent to which they were satisfied is set out below:

Performance condition	Performance period	Threshold	Target	Maximum	Actual	Actual as a % of maximum opportunity	Annual bonus payout		
							Graeme Watt <sup>2</sup>	Martin Hellawell <sup>3</sup>	Graham Charlton
Adjusted operating profit <sup>1</sup>	FY18	£51m	£55.7m	£56.7m	£70.5m	100%	£150,000	£353,633	£240,000

Notes:

- Adjusted operating profit is defined as operating profit before exceptional items and share-based payment charges.
- Graeme Watt joined as Chief Executive on 1 April 2018 and was eligible to receive bonus in respect of 2017/18 from his date of appointment.
- Martin Hellawell stepped down from his role as Chief Executive on 31 March 2018 and the amount paid was time pro-rated up to cessation.

No discretion was exercised by the Committee in relation to the outcome of the annual bonus awards. The FY18 bonus will be paid two-thirds in cash and one-third in deferred bonus shares. As stated on page 64, Martin Hellawell's annual FY18 bonus will be paid fully in cash.

### Long-term incentives awarded in FY18 (audited)

On 28 November 2017 the annual awards of nil-cost options under the Company's Long Term Incentive Plan ('LTIP') were made to the CFO. The new CEO joined on 1 April 2018 and was granted awards on 4 April 2018 under the same terms. Martin Hellawell was not granted any award under the LTIP in 2018.

Executive Director	LTIP award (% of salary)	LTIP award (shares)	Award date	Share price
Graeme Watt	100	66,864	04/04/18	£6.73
Graham Charlton	200	74,074	28/11/17	£5.40

50% of the award will be subject to the Company's relative TSR performance against the FTSE 250 (excluding real estate and investment trusts) over a three-year performance period and the remaining 50% will be subject to adjusted EPS targets at the end of the period. Further details are on page 63.

### Single figure remuneration for our Executive Directors

The tables below sets out the single total figure of remuneration and breakdown for each Executive Director in respect of FY18.

Executive Director	Salary	Taxable benefit	Bonus	LTIP	Pension	SIP	Other	Total
Graeme Watt (CEO)	£150,000	£1,039	£150,000 <sup>1</sup>	—	£4,500	—	—	£305,539
Martin Hellawell (former CEO)	£176,817	£2,266	£353,633	—	—	—	—	£532,716
Graham Charlton (CFO)	£200,000	£1,710	£240,000 <sup>1</sup>	—	£6,000	—	—	£447,710

Note:

- One-third of the annual bonus is settled in deferred bonus shares which vest after three years.

### Remuneration changes for the Board

On 1 April 2018, Graeme Watt was appointed as the new CEO and will receive a salary of £450,000. The variable incentive opportunity for the Chief Executive role will be 100% of salary for the annual bonus and 100% of salary for the LTIP. These arrangements, along with other elements of Graeme's remuneration, are in line with Softcat plc's Remuneration Policy approved by shareholders in 2016. Full disclosure of his remuneration arrangements is provided on page 62.

Martin Hellawell stepped down from his role as CEO and has taken on the role of Non-Executive Chairman. He received no termination payments from the Company on his cessation of employment as the Chief Executive. Full disclosure of his payments for loss of office are provided on page 64. Following his appointment as Non-Executive Chairman on 1 April 2018, Martin's annual fee is £150,000. His remuneration is in line with his new letter of appointment.

Brian Wallace, who stepped down as Non-Executive Chairman, received his annual Chairman fee until 31 March 2018.

**Remuneration changes for the Board continued**

Following the appointment of the new CEO, and in line with our commitment to move the CFO's remuneration to be more in line with external comparators, the Committee has decided to rebalance the CFO remuneration. In summary, for the 2019 financial year we are proposing to:

- increase base salary from £200,000 to £300,000;
- reduce maximum annual bonus from 120% to 100% of salary; and
- reduce maximum LTIP awards from 200% to 100% of salary.

The Committee's view is that this provides a package and approach which is more aligned to the shape of package which is operated in the external market as well as being aligned to the package provided to the new CEO. As such, the Committee views the approach as appropriate, and one which is aimed at retaining Graham, particularly as he continues to develop his experience as Chief Financial Officer of a listed FTSE 250 business. The new salary remains below the lower quartile for Chief Financial Officer roles in the FTSE 250.

**Remuneration Policy table summary**

In accordance with the remuneration reporting regulations, the Directors' Remuneration Policy (the 'Policy') summarised below was approved at the AGM on 8 December 2016, and will apply for a period of three years from the date of approval.

The Committee's objective is to operate this policy to ensure that our Executive Directors have a remuneration structure and total remuneration opportunity that is aligned to Softcat's business and is competitive when assessed against the market in which we compete for talent.

The implementation of the Policy for the 2019 financial year is outlined on page 68.

Element of remuneration		Operation
Salary	An Executive Director's basic salary is set on appointment and reviewed annually or when there is a change in position or responsibility.	When determining an appropriate level of salary, the Committee considers:
	<ul style="list-style-type: none"><li>• remuneration practices within the Company;</li><li>• the general performance of the Company;</li><li>• salaries within the ranges paid by the companies in the comparator group used for remuneration benchmarking;</li><li>• any change in scope, role and responsibilities; and</li><li>• the economic environment.</li></ul>	In general, salary increases for Executive Directors will be in line with the increase for employees.
Benefits	The Executive Directors receive private health insurance, critical illness, life insurance and death-in-service benefit.	Additional benefits may be offered, such as relocation allowances on recruitment.
	The maximum will be set at the cost of providing the benefits described.	
Pensions	The Executive Directors are entitled to receive a maximum employer contribution into the DC scheme or a salary supplement in lieu of pension of 20% of basic salary per annum.	
Annual and Deferred Share Bonus Plan (the 'Bonus Plan')	The Remuneration Committee will determine the maximum annual participation in the Annual Bonus Plan for each year, which will not exceed 200% of salary.	The maximum value of deferred shares is up to 50% of the bonus earned, which vest after a minimum deferral period of three years based on continued employment. The bonus contains clawback and malus provisions.
	LTIP maximum grant is 200% of salary p.a. (250% in exceptional circumstances).	The Committee considers and sets the performance measures and targets for each LTIP award. See page 63 for the performance conditions of the grant made in the year.
Long Term Incentive Plan (LTIP)		The LTIP contains clawback and malus provisions.

## PART A - AT A GLANCE CONTINUED

### Remuneration Policy table summary continued

Element of remuneration	Operation						
Share Incentive Plan ('SIP')	The Company operates a SIP and Sharesave Plan in which the Executive Directors are eligible to participate (which is in line with HMRC legislation and is open to all eligible staff) to encourage all employees to become shareholders in the Company and thereby align their interests with shareholders.						
Minimum shareholding requirement	<p>The following table sets out the minimum shareholding requirements:</p> <table> <tr> <th>Role</th><th>Shareholding requirement (% of salary)</th></tr> <tr> <td>Chief Executive</td><td>200</td></tr> <tr> <td>Chief Financial Officer</td><td>150</td></tr> </table> <p>The Committee retains the discretion to increase the shareholding requirements.</p>	Role	Shareholding requirement (% of salary)	Chief Executive	200	Chief Financial Officer	150
Role	Shareholding requirement (% of salary)						
Chief Executive	200						
Chief Financial Officer	150						
Non-Executive Director and Chairman fees	<p>The Board is responsible for setting the remuneration of the Non-Executive Directors. The Remuneration Committee is responsible for setting the Chairman's fees.</p> <p>Non-Executive Directors are paid an annual fee and additional fees for chairmanship of Committees. The Chairman does not receive any additional fees for membership of Committees.</p> <p>Fees are reviewed annually based on equivalent roles in the comparator group used to review salaries paid to the Executive Directors. Fees are set at broadly the median of the comparator group.</p> <p>Non-Executive Directors and the Chairman do not participate in any variable remuneration or benefits arrangements.</p> <p>The Company will pay reasonable expenses incurred and may settle any tax incurred in relation to these.</p>						

There are no changes to the approved Directors' Remuneration Policy. The full Policy was approved by shareholders on 8 December 2016 and is available to view in full on the Company's website at [softcat.com/investors](http://softcat.com/investors).

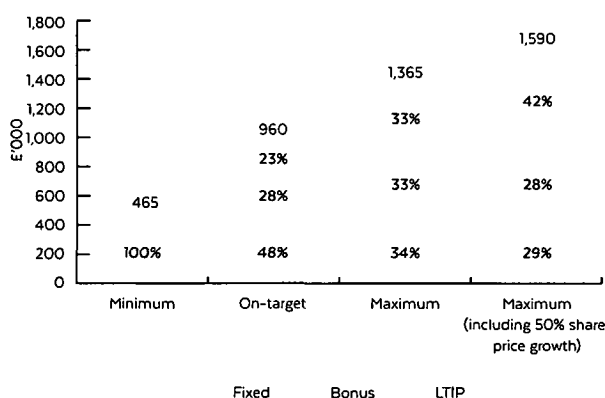
The implementation of the Policy for the 2019 financial year is outlined on page 68.

### Illustrations of the application of the Remuneration Policy

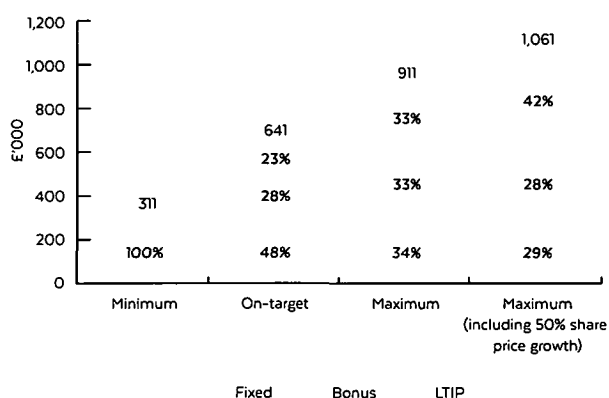
The charts below illustrate the remuneration that would be paid to each of the Executive Directors for the 2019 financial year under three different performance scenarios: (i) minimum; (ii) on-target; and (iii) maximum. The elements of remuneration have been categorised into three components: (i) fixed; (ii) annual bonus (deferred bonus); and (iii) LTIP.

In line with the changes to the regulations on policy scenarios, we have also included an additional reference point to show indicative share price growth of 50% over three years at maximum.

Chief Executive (Graeme Watt)



Chief Financial Officer (Graham Charlton)



### Illustrations of the application of the Remuneration Policy continued

The table below sets out the assumptions used to calculate the elements of remuneration for each of the scenarios set out in the charts above.

Element	Description	Minimum	Target	Maximum	Maximum including 50% share price growth
Fixed <sup>1</sup>	Salary, benefits and pension	Included	Included	Included	Included
Annual bonus <sup>2</sup>	Annual bonus (including deferred shares) Maximum opportunity of 100% of salary	No annual variable	60% of maximum bonus	100% of maximum bonus	100% of maximum bonus
LTIP <sup>3</sup>	Award under the LTIP Maximum annual award of 100% of salary	No multiple-year variable	50% of the maximum award	100% of the maximum award	100% of the maximum award plus 50% share price growth

**Notes:**

1. Based on 2018 benefits payments and pension values as per the single figure table. The actual benefits and pension contributions for 2019 will only be known at the end of the financial year.
2. In accordance with early adoption of the regulations, share price growth has been included in the final illustration. In addition, dividend equivalents have not been added to the deferred share bonus and LTIP share awards.
3. Participation in the SIP has been excluded given the relative size of the opportunity levels.

### Executive Director contracts and letters of appointment for Chairman and Non-Executive Directors

Executive Directors			Notice periods		Compensation provisions for early termination
			From Company	From Director	
Name	Date of service contract	Nature of contract			
Graeme Watt	1 April 2018	Rolling	Twelve months	Twelve months	None
Graham Charlton	29 October 2015	Rolling	Twelve months	Twelve months	None
Martin Hellawell <sup>1</sup>	29 October 2015	Rolling	Twelve months	Twelve months	None

### Non-Executive Directors

Name	Date of letter of appointment
Martin Hellawell <sup>1</sup>	1 April 2018
Brian Wallace <sup>2</sup>	29 October 2015
Lee Ginsberg	4 August 2015
Vin Murria	3 November 2015
Peter Ventress	29 September 2015

**Notes:**

1. Martin Hellawell stepped down from his role as CEO and was appointed Non-Executive Chairman with effect from 1 April 2018.
2. Brian Wallace stepped down as Non-Executive Chairman on 31 March 2018.

The Committee's policy for setting notice periods is that a twelve-month period will apply for Executive Directors.

The Non-Executive Directors of the Company (including the Chairman) do not have service contracts. The Non-Executive Directors are appointed by letters of appointment. Each Independent Non-Executive Director's term of office runs for a three-year period.

The initial terms of the Non-Executive Directors' positions are subject to their re-election by the Company's shareholders at the AGM and to re-election at any subsequent AGM at which the Non-Executive Directors stand for re-election.

All Directors will be put forward for re-election by shareholders on an annual basis.

## PART B - ANNUAL REPORT ON REMUNERATION

### Single total figure of remuneration (audited)

#### Executive Directors (audited)

The table below sets out the single total figure of remuneration and breakdown for each Executive Director in respect of FY18 and FY17.

Executive Director £'000	Salary		Taxable benefits <sup>1</sup>		Bonus <sup>2</sup>		LTIP <sup>3</sup>		Pension		SIP		Other		Total	
	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
Graeme Watt (CEO) <sup>4</sup>	150.0	—	1.0	—	150.0 <sup>7</sup>	—	—	—	4.5 <sup>6</sup>	—	—	—	—	—	305.5	—
Martin Hellawell <sup>5</sup> (Former CEO)	176.8	257.5	2.3	2.4	353.6	515.0 <sup>7</sup>	—	—	—	—	—	—	—	—	532.7	774.9
Graham Charlton (CFO)	200.0	175.1	1.7	1.0	240.0 <sup>7</sup>	210.1 <sup>7</sup>	—	—	6.0	5.3	—	—	—	—	447.7	391.4

#### Notes:

- See section below setting out details of the benefits provided.
- Details of the bonus targets, their level of satisfaction and the resulting bonus earned in FY18 are set out on page 58.
- The first grant of LTIP awards made in December 2015 will vest in December 2018. The second grant of LTIP awards made in December 2016 will vest in December 2019.
- Graeme Watt joined the Board as Chief Executive on 1 April 2018. The single figure includes his remuneration since joining the Company.
- Martin Hellawell stepped down from his role as CEO and was appointed Non-Executive Chairman with effect from 1 April 2018. He received time pro-rated bonus in respect of 2017/18 and his unvested nil-cost options awarded under the LTIP were time pro-rated and will vest, subject to achievement of the relevant performance conditions, at the normal vesting dates. The single figure includes his remuneration until 31 March 2018. His payments for loss of office are detailed on page 64.
- Graeme Watt receives a pension cash allowance equal to 3% of his salary.
- One-third of the annual bonus is settled in deferred bonus shares which vest after three years.

### Non-Executive Directors (audited)

The table below sets out the single total figure of remuneration and breakdown for each Non-Executive Director.

Non-Executive Director	2018 fees <sup>1</sup>	2017 fees <sup>1</sup>	Roles
Martin Hellawell <sup>2</sup>	50,835	—	Non-Executive Chairman
Brian Wallace <sup>3</sup>	70,727	103,000	Independent Non-Executive Chairman
Lee Ginsberg	63,654	61,800	Senior Independent Non-Executive Director Chairman of the Audit Committee
Vin Murria	47,741	46,350	Non-Executive Director
Peter Ventress	58,350	56,650	Non-Executive Director Chairman of the Remuneration Committee

#### Notes:

- The fees are proportionate to time in service to reflect total fees paid during the financial year.
- Martin Hellawell was appointed Non-Executive Chairman with effect from 1 April 2018. His annual Chairman fee was time pro-rated from 1 April 2018. The Remuneration Committee exercised its discretion to allow Martin to continue to receive his medical insurance as Chairman. The cost of providing this cover from 1 April 2018 to 31 July 2018 was £835.22.
- Brian Wallace stepped down as Non-Executive Chairman on 31 March 2018. His annual Chairman fee was time pro-rated up to 31 March 2018.

### Taxable benefits

Benefits in the year for the Executive Directors comprised private health insurance, critical illness and life cover.



## 2018 annual bonus outcomes

In respect of 2018, the bonus awards payable to Executive Directors were agreed by the Committee, having carefully reviewed the Company's results. The annual bonus structure operating in 2019 is outlined on page 68.

Details of the targets used to determine bonuses in respect of FY18 and the extent to which they were satisfied are shown in the table on page 58. These figures are included in the single figure table.

## Long-term incentives awarded (audited)

Awards under the Company's LTIP made in FY18 are shown in the table on page 58.

The awards were subject to the following performance conditions:

Measure	Weighting	Details
Adjusted EPS	50%	<ul style="list-style-type: none"> <li>• 20% vesting of this element for adjusted EPS at end of performance period of 23.7p (FY17: 20.6p)</li> <li>• Full vesting for 26.9p (FY17: 23.7p)</li> <li>• Straight-line vesting between these points</li> </ul>
Relative TSR – assessed against the constituents of the FTSE 250 (excluding real estate and equity investment trusts)	50%	<ul style="list-style-type: none"> <li>• 30% vesting for median performance against the comparators</li> <li>• Full vesting for upper quartile performance</li> <li>• Straight-line vesting between these points</li> </ul>

The EPS targets were set following the end of the 2017 financial year based on an assessment of the business.

## Pension entitlements

The Company operates a defined contribution pension scheme which the Executive Directors can participate in, or they can take a cash supplement in lieu of pension.

In FY18, Martin Hellawell did not receive any pension entitlements and Graham Charlton received 3% of salary employer pension contributions into the defined contribution scheme. Graeme Watt received 3% pension cash allowance.

None of the Directors receive an entitlement under a defined benefit plan.

## Share Incentive Plan ('SIP')

The table below sets out the free shares awarded to the Directors.

The Directors have an entitlement to purchase partnership shares under the SIP. Graham Charlton purchased 333 partnership shares during the year in addition to the receipt of free shares below. The total SIP holdings are provided on page 65 as part of the Directors' share interests table.

Executive Director	Free shares awarded in FY16	Award date	Market price on award date	Lapsed during period
Graeme Watt	—	—	—	—
Martin Hellawell	1,204	11/12/15	£3.00	—
Graham Charlton	301	11/12/15	£3.00	—

There were no free shares awarded in FY18 (FY17: nil).

## PART B – ANNUAL REPORT ON REMUNERATION CONTINUED

### Payments to past Directors/payments for loss of office (audited)

Brian Wallace, who stepped down as Non-Executive Chairman, received his annual Chairman fee until 31 March 2018. This amounted to £70,727.

Martin Hellawell stepped down from his role as Chief Executive on 31 March 2018 and received no termination payments from the Company. The Board used its discretion under the plan rules to deem Martin as a 'good leaver'. In line with his service agreement and Softcat plc's Remuneration Policy approved by shareholders in 2016, the Remuneration Committee has, therefore, made the following determinations consistent with this status.

#### Fixed

Martin received salary and benefits up to 31 March 2018.

Fixed	Annual amount (£)
Salary	£176,817
Benefits	£2,266
Pension	—

#### Annual bonus

Martin remained eligible for annual bonus in respect of FY18. The annual bonus paid was time pro-rated up to 31 March 2018 and amounted to £353,633. The annual bonus will be paid fully in cash.

#### Deferred Share Bonus Plan

The unvested nil-cost deferred share bonus awarded to Martin under the FY17 Deferred Share Bonus Plan vested in full and became exercisable on 31 March 2018. Martin received a dividend equivalent payment of £8,732.19 on the vesting of the option.

The following table sets out details of the awards:

Date of grant	Vesting date	Number of shares	Share price
28/11/17	31/03/18	44,552	£6.62

#### LTIP

All unvested nil-cost options awarded under the Long Term Incentive Plan were time pro-rated up to 31 March 2018 and will vest, subject to achievement of the relevant performance conditions, at the normal vesting dates and may then be exercised in accordance with the Plan rules.

The following table sets out details of the outstanding LTIP awards:

LTIP award	Date of grant	Vesting date	Number of shares granted	Time pro-rated number of shares (subject to performance conditions)
2015	21/12/15	21/12/18	208,333	158,125
2016	08/12/16	08/12/19	176,129	76,968

#### SIP

Martin also holds 1,204 free shares which were awarded under the SIP on 11 December 2015 which are no longer subject to a holding period, in line with the good leaver treatment as outlined in the plan rules.

There were no other payments for loss of office made to Directors in the year.

## Statement of Directors' shareholding and share interests

Director	Shareholding requirement (% of salary) <sup>1</sup>	Current shareholding (% of salary) <sup>2</sup>	Beneficially owned	Other shares held			Options			Shareholding requirement met?
				LTIP interests subject to performance conditions	Deferred shares not subject to performance conditions	Interests in unvested SIP shares <sup>4</sup>	Vested and unexercised	Unvested	Exercised	
Executive Directors										
Graeme Watt	200	—	—	66,864	—	—	—	—	—	No
Graham Charlton	150	6	1,531 <sup>3</sup>	335,507	18,177 <sup>6</sup>	301	—	—	—	No
Non-Executive Directors										
Martin Hellawell <sup>5</sup>	n/a	n/a	9,768,155	384,462	n/a	n/a	n/a	n/a	n/a	n/a
Brian Wallace	n/a	n/a	860,000	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Lee Ginsberg	n/a	n/a	20,833	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Vin Murria	n/a	n/a	295,397	n/a	n/a	n/a	n/a	n/a	n/a	n/a
Peter Ventress	n/a	n/a	48,202	n/a	n/a	n/a	n/a	n/a	n/a	n/a

### Notes:

1. The Chief Executive and Chief Financial Officer, who joined the Company in April 2018 and March 2015 respectively, do not meet the shareholding requirements and are therefore building up their shareholdings. The Committee expects them to build up the minimum shareholding requirements of 200% and 150% of salary over a five-year period from the approval of the Remuneration Policy.
2. This is based on a closing share price of £8.08 at 31 July 2018 and the year-end salaries of the Executive Directors. Values are not calculated for Non-Executive Directors as they are not subject to shareholding requirements. There have been no further changes to the interests of the other Directors.
3. Investment in partnership shares under the SIP. Graham Charlton has purchased 56 partnership shares since the year end and the date of this report.
4. Interests of free shares under the SIP.
5. Includes ordinary shares held by, or in trust for, Martin Hellawell and/or his family members. Martin Hellawell stepped down as CEO and was appointed Non-Executive Chairman with effect from 1 April 2018. His LTIP awards outstanding were time pro-rated and will vest, subject to achievement of the relevant performance conditions, at the normal vesting dates.
6. This includes an award of nil-cost options over 18,177 shares granted under the Deferred Share Bonus Plan in 2017. This was based on a share price of £3.85.

## Fees retained for external non-executive directorships

Executive Directors may hold positions in other companies as non-executive directors and retain the fees. Graeme Watt and Graham Charlton currently hold no external directorships. Martin Hellawell held no external directorships whilst he was an Executive Director.

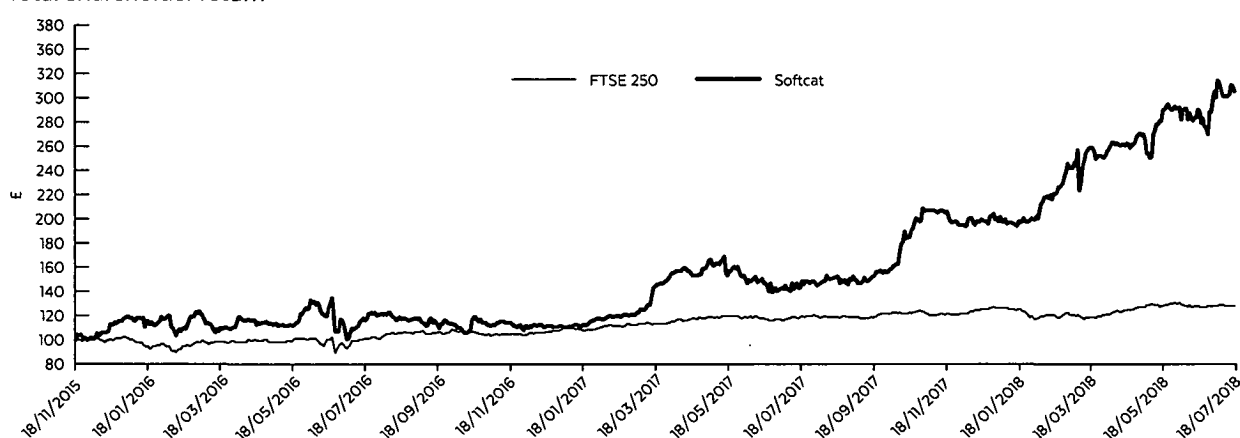
## PART B - ANNUAL REPORT ON REMUNERATION CONTINUED

### Comparison of overall performance and pay

The graph below shows the value of £100 invested in the Company's shares since listing compared with the FTSE 250 index. The graph shows the total shareholder return generated by both the movement in share value and the reinvestment over the same period of dividend income.

The Committee considers that the FTSE 250 is the appropriate index because the Company has been a member of this since the first review of the index since the IPO. This graph has been calculated in accordance with the Regulations. It should be noted that the Company listed on 18 November 2015 and therefore only has a listed share price for the period of 18 November 2015 to 31 July 2018.

#### Total shareholder return



### Chief Executive's historical remuneration

The table below sets out the total remuneration delivered to the Chief Executive over the last year valued using the methodology applied to the single total figure of remuneration.

Chief Executive		2018	2017	2016	2015
G Watt	Total single figure	£532,716	—	—	—
M Hellawell <sup>2</sup>		£305,539	£774,908	£562,117	£335,762
G Watt	Annual bonus payment level achieved (% of maximum opportunity)	100	—	—	—
M Hellawell <sup>2</sup>		100	100	99	72
		LTIP vesting level achieved (% of maximum opportunity) <sup>1</sup>	n/a	n/a	n/a

#### Notes:

1. First LTIP award was made in December 2015, and will vest in December 2018, subject to performance conditions.
2. Martin Hellawell stepped down from his role as Chief Executive on 31 March 2018 and Graeme Watt joined as Chief Executive on 1 April 2018. The single figure includes remuneration paid for the role as Chief Executive during the financial year.

### Relative importance of the spend on pay

The table below sets out the relative importance of spend on pay in the 2018 financial year. All figures provided are taken from the relevant Company accounts.

	Disbursements from profit in 2018 financial year	Disbursements from profit in 2017 financial year
Profit distributed by way of dividend	<b>£45.3m</b>	£40.9m
Total tax contributions <sup>1</sup>	<b>£21.9m</b>	£17.4m
Overall spend on pay, including Executive Directors	<b>£83.1m</b>	£67.9m

#### Note:

1. Includes corporation tax and employer's National Insurance contributions. The total tax contributions have been included because of the size of the contributions in comparison to other payments.

## Change in the Chief Executive's remuneration compared with employees

	% increase/(decrease) in remuneration in 2018 compared with remuneration in 2017	
	CEO <sup>1</sup>	Employees
Salary	27%	3%
Bonus <sup>2</sup>	(2)%	(2)%
Taxable benefits <sup>3</sup>	37%	19%

### Notes:

1. Martin Hellawell stepped down as Chief Executive on 31 March 2018 and Graeme Watt joined as Chief Executive on 1 April 2018. The figures for salary, bonus and taxable benefits are based on the aggregate amounts paid to Martin Hellawell and Graeme Watt in respect of FY18.
2. Excludes commissions.
3. Includes private medical insurance only.

## Consideration by the Directors of matters relating to Directors' remuneration

The Board has delegated to the Committee, under agreed terms of reference, responsibility for the Remuneration Policy and for determining specific packages for the Executive Directors and other selected members of the senior management team. The Company consults with key shareholders in respect of the Remuneration Policy and the introduction of new incentive arrangements.

The terms of reference for the Committee are available on the Company's website, [softcat.com/investors](http://softcat.com/investors), and from the Company Secretary at the registered office.

Our main responsibilities are:

- to determine and agree with the Board the broad Remuneration Policy for the Executive Directors and other selected members of the senior management team;
- to review the ongoing appropriateness and relevance of the Remuneration Policy; and
- to review any major changes in employee benefit structures throughout the Company and to administer all aspects of any share scheme.

The Committee receives assistance from the Company Secretary, who will attend meetings by invitation. The Chief Executive and the Chief Financial Officer attend by invitation on occasion.

## Advisers to the Remuneration Committee

During the financial year, PwC advised the Committee on all aspects of the Remuneration Policy for Executive Directors and selected members of the senior management team. PwC was appointed by the Committee following IPO in November 2015. PwC also provided the Company with tax and assurance work during the year. The Committee is satisfied that no conflict of interest exists or existed in the provision of these services.

PwC is a member of the Remuneration Consultants Group and the Voluntary Code of Conduct of that body is designed to ensure objective and independent advice is given to remuneration committees. Fixed fees of £45,000 (2017: £40,000) were provided to PwC during the year in respect of remuneration advice received.

## Statement of voting at general meeting

The table below shows the binding vote approving the Directors' Remuneration Policy on 8 December 2016 and the advisory vote on the Annual Report on Remuneration at the 2017 AGM.

	Votes for	%	Votes against	%	Votes withheld
Directors' Remuneration Policy	133,263,599	99.56	591,311	0.44	5,788,068
Annual Report on Remuneration	160,422,243	99.28	1,158,984	0.72	0

## PART B – ANNUAL REPORT ON REMUNERATION CONTINUED

### Statement of implementation of the Remuneration Policy in the 2019 financial year

The Remuneration Committee has reviewed and considered the key components of remuneration to ensure that the Remuneration Policy (summarised below) is fit for purpose, continues to drive success within the remuneration framework and meets the shareholder and governance expectations of a FTSE 250 company.

	What was implemented in 2017/2018	Implementation in 2018/2019
Base salary	For 2018, base salaries for the CEO and the CFO were £265,225 and £200,000 respectively. This is a rise from the previous year of 3% and 14% respectively.	For 2019, base salaries for the new CEO and CFO will be £450,000 and £300,000 respectively. The Committee decided to rebalance the CEO package on recruitment to have a higher fixed element of pay, resulting in a significant salary increase compared to his predecessor. It was also proposed to re-structure the CFO package to be aligned with the new CEO and the external market.
Pension	No change.	No change.
Benefits	No change.	No change.
Annual Bonus Plan ('ABP')	No change in the annual bonus opportunities or deferral mechanics.	The Committee decided to reduce the variable earnings opportunities to reflect the higher salaries. It was proposed that for 2019, the maximum bonus opportunity for the CEO and CFO are 100% of salary respectively. No change in the deferral mechanics. No change in the annual bonus performance measures.
• Cash	No change in the annual bonus performance measures.	
• Deferred share award		
LTIP	2017 LTIP awards: • No change in the LTIP grant levels. • No change to the performance measures or their weighting – 50% EPS growth and 50% relative TSR. • The relative TSR comparator group and the vesting schedule for this element will remain unchanged from the 2016 award.	2018 LTIP awards: • The Committee decided to reduce the LTIP grant levels. The maximum award levels for the CEO and CFO are 100% of salary respectively. • No change to the performance measures or their weighting – 50% EPS growth and 50% relative TSR. • The relative TSR comparator group and the vesting schedule for this element will remain unchanged. • The Committee will review the EPS performance target range in light of the Company's strategic plan over the next period. Taking into account these factors the Committee will set the EPS range for the 2018 LTIP grant at challenging levels over the next period. The targets will be communicated on grant.
Chairman and Non-Executive fees	Chairman fee: £106,090 Board fee: £47,741 Senior Independent Director: £5,305 Committee Chairmanship (per Committee): £10,609	Chairman fee: £150,000 Board fee: £49,173 Senior Independent Director: £5,464 Committee Chairmanship (per Committee): £10,927 The new Chairman annual fee is an increase from the previous year and is considered to be more aligned with the external market. The NED annual fees for the 2018 financial year represent a rise from the previous year of 3%, consistent with the base salary increase for the overall employee population.



Peter Ventress

Chairman of the Remuneration Committee

17 October 2018

## Directors' report

The Directors present their report for the year to 31 July 2018.

Softcat plc is a public company limited by shares, incorporated in England and Wales, and its shares are traded on the premium segment of the Main Market of the London Stock Exchange.

### Disclosures incorporated by reference

The following disclosures required to be included in this Directors' Report have been incorporated by way of reference to other sections of this report and should be read in conjunction with this report:

- Corporate Governance Statement – refer to pages 37 to 68 of this report;
- strategy and relevant future developments – refer to pages 22 and 23 of the Strategic Report; and
- financial risk management objectives and policies – refer to the Risk Management Report included in the Strategic Report on pages 28 to 30 and note 19 to the financial statements on pages 101 and 102.

### Directors of the Company

The following Directors have held office since 1 August 2017:

Name	Position	Date of appointment
M J Hellawell	Chairman	Appointed as a Director on 24 March 2006 and Chairman on 1 April 2018
B Wallace	Chairman	Appointed 8 May 2013 and resigned 31 March 2018
G Watt	Chief Executive	Appointed 1 April 2018
G L Charlton	Chief Financial Officer	Appointed 19 March 2015
L Ginsberg	Senior Independent Director	Appointed 16 September 2015
P Ventress	Independent Non-Executive Director	Appointed 1 October 2015
V Murria	Independent Non-Executive Director	Appointed 3 November 2015

Directors' biographies can be found on pages 38 to 39.

### Powers of Directors

The general powers of the Directors are contained within UK legislation and the Company's Articles of Association (the 'Articles'). The Directors are entitled to exercise all powers of the Company, subject to any limitations imposed by the Articles or applicable legislation.

### Directors' interests

The interests of the Directors in the issued shares of the Company at 31 July 2018 are disclosed in the Remuneration Report on page 65. The Remuneration Report also sets out details of any changes in those interests between the year end and October 2018.

No Director had a material interest in any contract of significance with the Company at any time during the financial year.

### Appointment and replacement of Directors

The rules about the appointment and replacement of Directors are contained in the Articles. They provide that Directors may be appointed by ordinary resolution of the members or by a resolution of the Directors. Any Director so appointed must retire and put themselves forward for election at the next Annual General Meeting ('AGM'). Directors wishing to continue to serve as members of the Board will seek re-election annually in accordance with the UK Corporate Governance Code.

In accordance with the UK Corporate Governance Code 2016 (the 'Code'), at the 2018 AGM each Director will stand for re-election.

### Indemnification of Directors

The Directors have the benefit of an indemnity provision contained in the Articles. The provision was in force during the year ended 31 July 2018 and remains in force and relates to certain losses and liabilities which the Directors may incur to third parties in the course of acting as Directors of the Company. In addition, Directors and officers of the Company and its subsidiaries are covered by directors' and officers' liability insurance.

### Compensation for loss of office and change of control

There are no agreements in place with any Director that would provide compensation for loss of office or employment resulting from a change of control. Change of control provisions for the Company's share plans may cause options and awards granted under such plans to vest on a takeover.

The Company is not party to any other significant agreements that take effect after, or terminate upon, a change of control.

### Articles of Association

The Articles may be amended by a special resolution of the members. At the AGM held on 12 November 2015, shareholders approved by special resolution the amended Articles which took effect at the date of the initial public offering ('IPO') on 18 November 2015.

### Share capital and control

The Company's ordinary issued share capital as at 31 July 2018 was 197,950,695 ordinary shares of 0.05p each, which have a premium listing on the London Stock Exchange. The ordinary share class represents over 99.9% of the Company's total issued share capital.

In addition to the ordinary shares, the Company also has a class of 18,933 deferred shares which were created following the share capital reorganisation at IPO and which are not admitted to trading on a regulated market.

Shares acquired through the Company's share schemes and plans rank equally with the other shares in issue and have no special rights. The Company has an Employee Benefit Trust ('EBT') and a Share Incentive Plan Trust ('SIP Trust') for the benefit of employees and former employees of the Company. At 31 July 2018, the EBT holds nil ordinary shares and the SIP Trust holds 797,340 ordinary shares in the Company.

During the year ended 31 July 2018, share options were exercised pursuant to the Company Share Option Plan, resulting in the additional listing and allotment of 344,552 new ordinary shares.

Holders of ordinary shares are entitled to attend and speak at general meetings of the Company, to appoint one or more proxies and, if they are corporations, corporate representatives who are entitled to attend general meetings and to exercise voting rights.

The deferred shares carry no voting rights or rights to receive any of the profits of the Company available for distribution by way of dividend or otherwise. On a return of capital on a winding up of the Company (but not otherwise), the holder is entitled only to the repayment of the amount paid up on that share after payment of the capital paid up on each other share in the capital of the Company and the further payment of £10,000,000 on each such share. The deferred shares represent less than 0.01% of the Company's total issued share capital.

Further information on the Company's issued share capital can be found in note 15 to the financial statements.

The Company passed the following resolutions on 8 December 2017:

- An ordinary resolution providing the Directors with authority to:
  - (i) allot ordinary shares up to a maximum nominal amount of £32,934.36, to be reduced by the nominal amount allotted or granted under paragraph (ii) below in excess of such sum; and
  - (ii) allot ordinary shares up to a maximum nominal amount of £65,868.71 in connection with a pre-emptive offer by way of a rights issue, such amount to be reduced by any allotments made under paragraph (i) above.

- Special resolutions providing Directors with authority to:

- (i) allot shares or sell treasury shares for cash up to a maximum nominal amount of £4,940.15; and
- (ii) allot shares or sell the treasury shares for cash up to a maximum nominal amount of £4,940.15, in connection with an acquisition or other capital investment,

otherwise than to existing shareholders pro rata to their shareholding.

These authorities are due to expire at the Company's AGM to be held on 6 December 2018 and proposals for the renewal of the authority to allot ordinary shares are set out in the Notice of the Annual General Meeting. The Company has no intention to complete a market purchase of its shares and will not seek this authority at the 2018 AGM.

The ordinary shares are freely transferable. Lock-up arrangements pursuant to the Underwriting Agreement dated 13 November 2015 and deed polls of election entered into prior to the IPO placing the following restrictions expired during the year:

- each Director (and each of his or her family members and each trustee of a trust, the beneficiary of which is a Director and/or a family member of a Director) undertook not to sell any further ordinary shares, other than at IPO, for a period of 365 days after the date of the IPO;
- each 'selling shareholder', other than the 'core selling shareholders' (as such term is defined in the IPO prospectus), who was an employee of the Company and who had a holding of ordinary shares of 0.5% or more of the Company's issued share capital, in each case as at the date of the IPO prospectus, undertook not to sell any further ordinary shares, other than at IPO, for a period of 365 days after the date of the IPO; and
- certain 'non-selling shareholders' undertook not to sell any ordinary shares for a period of either 180 or 365 days after the date of the IPO.

There are no further restrictions on the transfer or limitations on the holding of ordinary shares and no requirements to obtain approval prior to any transfers other than: certain restrictions which may from time to time be imposed by laws and regulations (for example, insider trading laws); and pursuant to the Market Abuse Regulation and the Company's own rules whereby Directors and certain employees of the Company require the approval of the Company to deal in the ordinary shares; and pursuant to the Articles where there is default in supplying the Company with information concerning interests in the Company's ordinary shares. There are no special control rights in relation to the Company's ordinary shares.

There are no agreements between holders of securities that are known to the Company which may result in restrictions on the transfer of securities or on voting rights.



### Substantial shareholders

The substantial shareholdings in the table below represent those interests notified to the Company as at 31 July 2018 in accordance with the Disclosure Guidance and Transparency Rules of the UK Listing Authority, and those holdings may have changed since notification to the Company.

	As at 31 July 2018		As at 17 October 2018	
	Ordinary shares	Voting rights	Ordinary shares	Voting rights
Peter Kelly <sup>1</sup>	65,088,089	32.9%	65,088,089	32.9%
Mawer Investment Management Limited	17,020,154	8.6%	15,380,333	7.8%
John Nash <sup>1</sup>	11,014,526	5.6%	11,453,364	5.8%
Martin Hellawell <sup>1</sup>	9,768,155	4.9%	9,768,155	4.9%
JP Morgan Asset Management UK Limited	8,651,659	4.4%	8,163,505	4.1%

**Note:**

1. The ordinary shares held by Peter Kelly, Martin Hellawell and John Nash include shares held beneficially via various entities or connected persons.

### Principal shareholder and Relationship Agreement

In accordance with Listing Rule 9.8.4R(14), the Company has set out below a statement describing the Relationship Agreement entered into by the Company with its principal shareholder (the 'Relationship Agreement'). As at 17 October 2018, Peter Kelly, the founder of Softcat plc, held 32.91% of the issued ordinary share capital of the Company.

On 13 November 2015, the Company and Peter Kelly entered into the Relationship Agreement. The principal purpose of the Relationship Agreement is to ensure that the Company will be capable of carrying on its business independently of Peter Kelly and certain persons deemed to be connected with him ('Connected Persons').

Pursuant to the Relationship Agreement, Peter Kelly, inter alia:

- shall procure that all transactions, agreements or arrangements entered into between the Company and Peter Kelly (or any of his Connected Persons) are conducted on an arm's length basis, on normal commercial terms and in accordance with the related party transaction rules set out in Chapter 11 of the Listing Rules and Peter Kelly shall abstain from voting on any resolution to which LR 11.1.7R(4) of the Listing Rules applies relating to a transaction with Peter Kelly (or any of his Connected Persons) as the related party;
- shall (and shall procure that each of his Connected Persons shall) (i) not take any actions that would reasonably be expected to have the effect of preventing the Company from complying with its obligations under the Listing Rules or be prejudicial to the Company's status as a listed company or the Company's eligibility for listing; (ii) not propose or procure the proposal of a shareholder resolution that would circumvent or appear to circumvent the proper application of the Listing Rules; and

(iii) not exercise his voting rights or other rights to procure any amendment to the Articles which would be contrary to the maintenance of the Company's independence, including its ability to operate and make decisions independently from Peter Kelly, or otherwise inconsistent with the provisions of the Relationship Agreement;

- has agreed that for a period of two years from 18 November 2015, he shall not be entitled to operate, establish or acquire an undertaking which constitutes a competing business; and
- has agreed that for a period of two years from 18 November 2015, he shall not (and shall procure that each of his Connected Persons shall not) solicit or encourage for service or employment any of the Executive Directors or members of senior management.

Furthermore, the Company and Peter Kelly have agreed that for so long as Peter Kelly (together with any of his Connected Persons) holds 10% of the Company's issued share capital, he shall be entitled to appoint one Non-Executive Director of the Company, although no such Director has been appointed as at the date of this Annual Report.

The Relationship Agreement will remain in effect for so long as: (a) Peter Kelly (and/or any of his Connected Persons) holds at least 10% of the Company's issued share capital; and (b) the ordinary shares are admitted to the premium listing segment of the Official List maintained by the Financial Conduct Authority.

The Company has and, in so far as it is aware, Peter Kelly and his Connected Persons have complied with the independence provisions set out in the Relationship Agreement from the date of the agreement.

### **Risk regarding financial instruments**

The financial risk management objectives and policies are disclosed in note 19 to the financial statements on pages 101 and 102.

### **Research and development**

The Company did not carry out any research and development activities during the year (2017: none).

### **Political donations**

The Company did not make any political donations during the period (2017: £nil).

A resolution to authorise the Company to make political payments up to £50,000 has been included for shareholder consideration in the Notice of AGM. The Company does not intend to make any payments to political organisations or to incur other political expenditure; however, this resolution has been proposed to ensure that the Company has authority under the wide definition used in the Companies Act 2006 of matters constituting political donations.

### **Greenhouse gas emissions**

Information relating to the Company's greenhouse gas emissions is detailed in the Corporate Social Responsibility Report, on page 35 of the Strategic Report.

### **Corporate social responsibility**

Details on our commitment to corporate social responsibility can be found on pages 31 to 35 of the Strategic Report.

### **Equality and diversity**

The Company operates an equal opportunities policy which endeavours to treat individuals fairly and not to discriminate on the basis of gender, disability, race, national or ethnic origin, sexual orientation or marital status. Applications for employment are fully considered on their merits, and employees are given appropriate training and equal opportunities for career development and promotion.

The Company is committed to ensuring that adequate policies and procedures are in place to enable disabled applicants to receive training to perform safely and effectively and to provide development opportunities to ensure they reach their full potential. Where an individual becomes disabled during the course of their employment with the Company, the Company will seek to provide, wherever possible, continued employment on normal terms and conditions. Adjustments will be made to the environment and duties or, alternatively, suitable new roles within the Company will be secured with additional training where necessary.

Details of the Company's gender breakdown are given in the Sustainability Report on page 33.

The Company places considerable value on the involvement of its employees and continues to keep them informed on matters affecting them as employees. This is undertaken through a variety of methods including, but not limited to, weekly all-Company meetings, team briefings, Company days, email and the intranet. At team meetings, managers are responsible for ensuring that information sharing, discussion and feedback take place on a regular basis. As a result of these meetings management can communicate the financial and economic factors affecting the Company and ensure that the views of employees are taken into account in Company decisions which are likely to affect their interests.

### **Post-balance sheet events**

#### **Dividend**

The Board recommends a final dividend of 8.8p per ordinary share and a special dividend of 15.1 per ordinary share to be paid on 14 December 2018 to all ordinary shareholders who were on the register of members at the close of business on 2 November 2018. Shareholders will be asked to approve the final and special dividends at the AGM on 6 December 2018.

The Company's dividend policy is detailed in the Chairman's Statement on page 5.

## Requirements of the Listing Rules

The following table provides references to where the information required by the Listing Rule 9.8.4R is disclosed:

Listing Rule requirement	Location in Annual Report
A statement of the amount of interest capitalised during the period under review and details of any related tax relief.	Not applicable
Information required in relation to the publication of unaudited financial information.	Not applicable
Details of any long-term incentive schemes.	Directors' Remuneration Report, pages 58 and 63
Details of any arrangements under which a Director has waived emoluments, or agreed to waive any future emoluments, from the Company.	Not applicable
Details of any non-pre-emptive issues of equity for cash.	Directors' Report, page 70
Details of any non-pre-emptive issues of equity for cash by any unlisted major subsidiary undertaking.	No such share allotments
Details of parent participation in a placing by a listed subsidiary.	Not applicable
Details of any contract of significance in which a Director is or was materially interested.	Not applicable
Details of any contract of significance between the Company (or one of its subsidiaries) and a controlling shareholder.	Not applicable
Details of waiver of dividends by a shareholder.	Not applicable
Board statement in respect of Relationship Agreement with the controlling shareholder.	Directors' Report, page 71

### Auditor

Ernst & Young LLP ('EY') has signified its willingness to continue in office as auditor to the Company and the Company is satisfied that EY is independent and that there are adequate safeguards in place to safeguard its objectivity. A resolution to reappoint EY as the Company's auditor will be proposed at the 2018 AGM.

### Statement of Directors' responsibilities in relation to the financial statements

The Directors are responsible for preparing the Annual Report and the financial statements in accordance with applicable law and regulations.

The Directors are required to prepare financial statements for each financial year in accordance with International Financial Reporting Standards ('IFRSs') as adopted by the European Union. Under company law the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Company as at the end of the financial year and the profit or loss of the Company, so far as concerns members of the Company, for the financial year. In preparing those financial statements, the Directors are required to:

- select and apply accounting policies in accordance with IAS 8;
- present information, including accounting policies, in a manner that provides relevant, reliable, comparable and understandable information;

- provide additional disclosures when compliance with the specific requirements in IFRSs is insufficient to enable users to understand the impact of particular transactions, other events and conditions on the entity's financial position and financial performance;
- make judgements and estimates that are reasonable and prudent;
- state that applicable accounting standards have been followed, subject to any material departures disclosed and explained in the Company's financial statements; and
- prepare the financial statements on the going concern basis unless it is inappropriate to presume that the Company will continue in business.

The Directors are responsible for keeping adequate accounting records which are sufficient to disclose with reasonable accuracy at any time the financial position of the Company and enable them to ensure that the financial statements comply with the Companies Act 2006 and Article 4 of the IAS Regulation. They are also responsible for safeguarding the assets of the Company and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

### Fair and balanced reporting

Having taken advice from the Audit Committee, the Board considers that the Annual Report and Accounts, taken as a whole, is fair, balanced and understandable and that it provides the information necessary for shareholders to assess the Company's position and performance, business model and strategy.

### Responsibility statement pursuant to FCA's Disclosure Guidance and Transparency Rule 4 ('DTR 4')

Each Director of the Company (whose names and functions appear on pages 38 and 39) confirms that (solely for the purpose of DTR 4) to the best of his or her knowledge:

- the financial statements in this document, prepared in accordance with the applicable accounting standards, give a true and fair view of the assets, liabilities, financial position and profit of the Company; and
- the Strategic Report and the Directors' Report include a fair review of the development and performance of the business and the position of the Company, together with a description of the principal risks and uncertainties that it faces.

### Disclosure of information to the auditor

The Directors in office at the time of approval of the Directors' Report are listed on page 69 and have each confirmed that:

- so far as he or she is aware, there is no relevant audit information of which the Company's auditor is unaware; and
- he or she has taken all the steps that he or she ought to have taken as a Director to make himself or herself aware of any such relevant audit information and to establish that the Company's auditor is aware of that information.

This confirmation is given and should be interpreted in accordance with the provisions of Section 418 of the Companies Act 2006.

### Going concern

The Company's business activities, together with the factors likely to affect its future development, performance and position, are set out in the Strategic Report on pages 1 to 35. The financial position of the Company, its cash flows and liquidity position are described in the Financial Review on pages 26 to 27. In addition, note 19 to the financial statements includes the Company's objectives, policies and processes for managing its capital, its financial risk management objectives and its exposures to credit risk and liquidity risk.

The Directors have a reasonable expectation that the Company has adequate resources to continue in operational existence for the foreseeable future and have therefore continued to adopt the going concern basis in preparing the financial statements.

### Viability statement

In accordance with provision C.2.2 of the 2016 revision of the Code, the Board has assessed the prospects of the Company over a longer period than the twelve months that has in practice been the focus of the 'going concern' provision.

The Board conducted the review for a three-year period, corresponding with the period covered by its strategic three-year plan process. These forecasts are updated on an annual basis and reflect the Company's policy of growth, increased customer offerings and available internal and financial resources without the need for external funding. They consider profits, cash flows, funding requirements and other key financial ratios over the period, as well as the desired minimum cash float.

The principal risks are set out on pages 28 to 30 and the most relevant potential impact of these risks on viability was considered to be:

- a substantial and sustained decrease in revenue resulting from a loss of Softcat culture or inability to satisfy customer needs;
- a substantial fall in achievable gross margins resulting from margin pressure associated with a fall in levels of customer service; and
- an ongoing increase in the working capital cycle.

The Board overlaid the potential impact of the principal risks which could affect the financial position in 'severe but plausible' scenarios onto the three-year forecasts and concluded that the business would remain viable. As part of this they performed sensitivity analyses that flexed the forecasts including reduced income, profitability and increased working capital cycle, both individually and in unison, to reflect these severe but plausible scenarios.

Based on the results of the procedures outlined above, the Directors have a reasonable expectation that the Company will be able to continue in operation and meet its liabilities as they fall due over the three-year period of assessment.

### Annual General Meeting

The Company's 2018 AGM will take place on 6 December 2018 at the Company's registered office: Softcat plc, Fieldhouse Lane, Marlow, Buckinghamshire SL7 1LW. Subject to any restrictions set out in this section, on a show of hands every holder of ordinary shares who is present in person or by proxy at a general meeting has one vote on each resolution and, on a poll, every holder of ordinary shares who is present in person or by proxy has one vote on each resolution for every ordinary share of which he/she is the registered holder. A proxy will have one vote against a resolution on a show of hands in certain circumstances specified in the Articles. The Notice of AGM specifies deadlines for exercising voting rights. The Notice of AGM can be found in the investor relations section of the Company's website, [www.softcat.com](http://www.softcat.com), and is being posted at the same time as this Annual Report. The Notice of AGM sets out the business of the meeting and provides explanatory notes on all resolutions. Separate resolutions are proposed in respect of each substantive issue.

A holder of ordinary shares may vote personally or by proxy at a general meeting. Any form of proxy must be delivered to the Company not less than 48 hours before the time appointed for holding the meeting or adjourned meeting at which the person named in the appointment proposes to vote (for this purpose, the Directors may specify that no account shall be taken of any part of a day that is not a working day). A corporation which is a holder of ordinary shares in the Company may authorise such persons as it thinks fit to act as its representatives at any general meeting of the Company.

No holder of ordinary shares shall be entitled to attend or vote, either personally or by proxy, at a general meeting in respect of any ordinary share if any call or other sum presently payable to the Company in respect of such ordinary share remains unpaid or in certain other circumstances specified in the Articles where there is default in supplying the Company with information concerning interests in the Company's ordinary shares.

The AGM is the Company's principal forum for communication with private shareholders. In addition to the formal business, there will be a presentation by the Chief Executive on the performance of the Company and its future development. The Chairman of the Board and the Chairmen of the Committees, together with the Directors, will be available to answer shareholders' questions at the meeting.

The Directors' Report has been approved by the Board of Directors and is signed on its behalf by:



**Graham Charlton**  
Chief Financial Officer

17 October 2018

## INDEPENDENT AUDITOR'S REPORT

To the members of Softcat plc

### Opinion

We have audited the financial statements of Softcat plc for the year ended 31 July 2018 which comprise the Statement of Profit or Loss and Other Comprehensive Income, the Statement of Financial Position, the Statement of Changes in Equity, the Statement of Cash Flows and the related notes 1 to 25, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards ('IFRSs') as adopted by the European Union.

In our opinion, the financial statements:

- give a true and fair view of the Company's affairs as at 31 July 2018 and of its profit for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union; and
- have been prepared in accordance with the requirements of the Companies Act 2006.

### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) ('ISAs (UK)') and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report below. We are independent of the Company in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard as applied to public interest entities, and we have fulfilled our other ethical responsibilities in accordance with these requirements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Conclusions relating to principal risks, going concern and viability statement

We have nothing to report in respect of the following information in the Annual Report, in relation to which the ISAs (UK) require us to report to you whether we have anything material to add or draw attention to:

- the disclosures in the Annual Report (pages 28 to 30) that describe the principal risks and explain how they are being managed or mitigated;
- the Directors' confirmation (page 28) in the annual report that they have carried out a robust assessment of the principal risks facing the entity, including those that would threaten its business model, future performance, solvency or liquidity;
- the Directors' statement (page 74) in the financial statements about whether they considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the entity's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements;
- whether the Directors' statement in relation to going concern required under the Listing Rules in accordance with Listing Rule 9.8.6R(3) is materially inconsistent with our knowledge obtained in the audit; or
- the Directors' explanation (page 74) in the Annual Report as to how they have assessed the prospects of the entity, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the entity will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

### Overview of our audit approach

<b>Risks of material misstatement</b>	<ul style="list-style-type: none"><li>• Overstatement of performance through the misstatement of revenue recognised at or near year end</li><li>• Misstatement of rebate income through adjustments to the balance sheet receivable or the misclassification of rebates to overstate reported results</li></ul>
<b>Materiality</b>	<ul style="list-style-type: none"><li>• Overall materiality of £3.4m which represents 5% of profit before tax</li></ul>

## Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial statements of the current period and include the most significant assessed risks of material misstatement (whether or not due to fraud) that we identified. These matters included those which had the greatest effect on: the overall audit strategy; the allocation of resources in the audit; and directing the efforts of the engagement team. These matters were addressed in the context of our audit of the financial statements as a whole, and in our opinion thereon, and we do not provide a separate opinion on these matters.

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p><b>Overstatement of performance through the misstatement of revenue recognised at or near year end</b></p> <p>During the year the Company recognised revenue of £1,082m (2017: £832m).</p> <p>Refer to the Audit Committee Report (pages 46 to 49); accounting policies (pages 86 to 93); and note 2 of the Company financial statements (page 93).</p> <ul style="list-style-type: none"> <li>Revenue is a key value driver for the business as a whole and is one of the key performance indicators used to measure the value of the business.</li> <li>Certain compensation incentives are based on quarterly and annual gross margin targets, creating a risk of revenue misstatement through management override.</li> <li>Management's process for accounting for certain revenue transactions, particularly the review process at or near the year end, is mostly manual and therefore susceptible to error (either deliberate or without intent).</li> <li>There is therefore a risk that revenue is recognised prematurely, fictitiously, or without the associated cost of goods sold.</li> </ul>	<ul style="list-style-type: none"> <li>Tested revenue cut off by obtaining management's sales cut off analysis and independently testing transactions therein on a sample basis by vouching to invoices and proof of delivery.</li> <li>To address the risk of management override in relation to the identified risk, we tested a sample of manual journal entries recorded at or near year end by verifying to supporting documentation and credit notes issued subsequent to the year end.</li> <li>We tested a sample of sales transactions deferred at the year end and recalculated the deferred elements to obtain assurance over the calculation of deferred revenue. We also selected a sample of product codes and verified they were appropriately identified by management as potentially requiring deferral when invoiced.</li> <li>We selected material sales transactions and obtained underlying support to consider if revenue was recorded in the correct period.</li> <li>We obtained signed confirmations from key senior sales personnel to confirm the absence of side agreements, which could impact revenue recognised during the financial year.</li> <li>We analysed sales-related journal entry data to track sales from revenue through to accounts receivable through to cash collection. We used this analysis to validate the appropriateness of transaction flows, and tested a sample of transactions to determine if the journals accurately reflected the substance of transactions recorded.</li> </ul>	<p>We concluded that revenue is materially correct and has been recognised in accordance with the Company's accounting policies and International Financial Reporting Standards.</p>

## INDEPENDENT AUDITOR'S REPORT CONTINUED

To the members of Softcat plc

### Key audit matters continued

Risk	Our response to the risk	Key observations communicated to the Audit Committee
<p><b>Misstatement of rebate income through adjustments to the balance sheet receivable or the misclassification of rebates to overstate reported results</b></p> <p>During the year the Company earned rebate income of £29m (2017: £24m).</p> <p>Refer to the Audit Committee Report (pages 46 to 49); accounting policies (pages 86 to 93); and note 1.7 of the Company Financial Statements (page 89).</p> <p>Rebates are recorded through a primarily manual process. While most rebates are agreed with the supplier and received during the year, there is an opportunity to misstate results through adjustments to the balance sheet receivable or the misclassification of rebates as revenue instead of recording them against costs of goods sold.</p>	<ul style="list-style-type: none"> <li>Tested key financial reporting controls around the rebate process, which cover the verification of amounts reported by suppliers, the accuracy of the calculated rebate receivable accrual, and a retrospective review of cash received against amounts accrued.</li> <li>Tested the year end rebate receivable by confirming a sample of rebates due from suppliers to third party source documentation.</li> <li>Tested a sample of rebate transactions recorded to the statement of profit and loss throughout the year and obtained underlying support to consider whether recorded in the correct period and if presented appropriately against cost of goods sold.</li> <li>Analysed the rebate receivable by vendor and compared the largest vendor-level balances (making up 95% of the balance) against 31 July 2017. Performed procedures to understand the drivers of increases or decreases in the underlying balances.</li> <li>Considered the movement in the overall balance relative to the increase in business activity and corroborated significant differences.</li> <li>Used data analytics to confirm rebate income is not misrepresented as revenue by mapping the underlying transactions recorded through the year to cost of goods sold.</li> </ul>	<p>We concluded that both rebate income and the rebate receivable are materially correct and have been recognised in accordance with the Company's accounting policies and International Financial Reporting Standards.</p>

### An overview of the scope of our audit

#### Tailoring the scope

Our assessment of audit risk, our evaluation of materiality and our allocation of performance materiality determine our audit scope for the Company. This enables us to form an opinion on the financial statements. We take into account size, risk profile, the organisation of the Company and effectiveness of controls, and changes in the business environment when assessing the level of work to be performed. All audit work was performed directly by the audit engagement team.

#### Our application of materiality

We apply the concept of materiality in planning and performing the audit, in evaluating the effect of identified misstatements on the audit and in forming our audit opinion.

#### Materiality

*The magnitude of an omission or misstatement that, individually or in the aggregate, could reasonably be expected to influence the economic decisions of the users of the financial statements. Materiality provides a basis for determining the nature and extent of our audit procedures.*

We determined materiality for the Company to be £3.4m (2017: £2.5m), which is 5% (2017: 5%) of profit before tax. We believe that profit before tax provides us with the most appropriate basis for materiality as it drives shareholder returns and is a key measure of Company performance.



## Our application of materiality continued

### Performance materiality

*The application of materiality at the individual account or balance level. It is set at an amount to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements exceeds materiality.*

On the basis of our risk assessments, together with our assessment of the Company's overall control environment, our judgement was that performance materiality was 75% (2017: 50%) of our planning materiality, namely £2.6m (2017: £1.3m). We have increased the performance materiality from 50% to 75% as a result of the low value of audit findings in the prior year.

### Reporting threshold

*An amount below which identified misstatements are considered as being clearly trivial.*

We agreed with the Audit Committee that we would report to them all uncorrected audit differences in excess of £0.2m (2017: £0.1m), which is set at 5% of materiality, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations in forming our opinion.

### Other information

The other information comprises the information included in the Annual Report (pages 1 to 75), including the Strategic Report (pages 1 to 35) and corporate governance (pages 36 to 75), other than the financial statements and our Auditor's Report thereon. The Directors are responsible for the other information.

Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in this report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

In this context, we also have nothing to report in regard to our responsibility to specifically address the following items in the other information and to report as uncorrected material misstatements of the other information where we conclude that those items meet the following conditions:

- **Fair, balanced and understandable (page 74)** – the statement given by the Directors that they consider the Annual Report and financial statements taken as a whole is fair, balanced and understandable and provides the information necessary for shareholders to assess the Company's performance, business model and strategy is materially inconsistent with our knowledge obtained in the audit.
- **Audit Committee reporting (pages 46 to 49)** – the section describing the work of the Audit Committee does not appropriately address matters communicated by us to the Audit Committee
- **Directors' statement of compliance with the UK Corporate Governance Code (page 37)** – the parts of the Directors' statement required under the Listing Rules relating to the Company's compliance with the UK Corporate Governance Code containing provisions specified for review by the auditor in accordance with Listing Rule 9.8.10R(2) do not properly disclose a departure from a relevant provision of the UK Corporate Governance Code.

## INDEPENDENT AUDITOR'S REPORT CONTINUED

To the members of Softcat plc

### Opinion on other matters prescribed by the Companies Act 2006

In our opinion the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Directors' Report for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and Directors' Report have been prepared in accordance with applicable legal requirements.

### Matters on which we are required to report by exception

In light of the knowledge and understanding of the Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or Directors' Report.

We have nothing to report in respect of the following matters in relation to which the Companies Act 2006 requires us to report to you if, in our opinion:

- adequate accounting records have not been kept, or returns adequate for our audit have not been received from branches not visited by us; or
- the financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

### Responsibilities of Directors

As explained more fully in the Directors' Responsibilities Statement set out on page 73, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the Directors either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

### Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

### Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

The objectives of our audit, in respect to fraud, are: to identify and assess the risks of material misstatement of the financial statements due to fraud; to obtain sufficient appropriate audit evidence regarding the assessed risks of material misstatement due to fraud, through designing and implementing appropriate responses; and to respond appropriately to fraud or suspected fraud identified during the audit. However, the primary responsibility for the prevention and detection of fraud rests with both those charged with governance of the entity and management.

Our approach was as follows:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Company and determined that the most significant are those related to the reporting framework (IFRS as adopted by the EU, the Companies Act 2006 and the Corporate Governance Code) and the relevant tax compliance regulations in the UK. In addition, we concluded that there are certain significant laws and regulations which may have an effect on the determination of the amounts and disclosures in the financial statements, being the Listing Rules of the London Stock Exchange and the Bribery Act 2010.

### Auditor's responsibilities for the audit of the financial statements continued

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud continued

- We understood how Softcat plc is complying with those frameworks by making enquiries of management, those responsible for legal and compliance procedures and the Company Secretary. We corroborated our enquiries through our review of Board minutes, discussions with the Audit Committee and any correspondence received from regulatory bodies.
- We assessed the susceptibility of the Company's financial statements to material misstatement, including how fraud might occur, by meeting with management to understand where it considered there was susceptibility to fraud. We also considered performance targets and their influence on efforts made by management to manage earnings or influence the perceptions of analysts. Where this risk was considered to be higher, we performed audit procedures to address each identified fraud risk. The key audit matters section above addresses procedures performed in areas where we have concluded the risks of material misstatement are highest (including where due to the risk of fraud). These procedures included testing manual journal entries.
- Based on this understanding we designed our audit procedures to identify non-compliance with such laws and regulations. Our procedures involved review of Board minutes to identify non-compliance with such laws and regulations, review of reporting to the Audit Committee on compliance with regulations and enquires of the Company Secretary and management.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our Auditor's Report.

### Other matters we are required to address

- We were appointed by the Company on 8 December 2017 to audit the financial statements for the year ending 31 July 2018 and subsequent financial periods.
- The period of total uninterrupted engagement including previous renewals and reappointments is six years, covering the years ending 31 July 2013 to 31 July 2018.
- The non-audit services prohibited by the FRC's Ethical Standard were not provided to the Company and we remain independent of the Company in conducting the audit.
- The audit opinion is consistent with the additional report to the Audit Committee.

### Use of our report

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.



**David Hales (Senior Statutory Auditor)**

for and on behalf of Ernst & Young LLP, Statutory Auditor

London

17 October 2018

#### Notes:

1. The maintenance and integrity of the Softcat plc website is the responsibility of the Directors; the work carried out by the auditor does not involve consideration of these matters and, accordingly, the auditor accepts no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
2. Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

# STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 July 2018

	Notes	2018 £'000	2017 £'000
Revenue	2	1,081,678	832,486
Cost of sales		(906,515)	(696,173)
<b>Gross profit</b>		<b>175,163</b>	<b>136,313</b>
Administrative expenses		(107,141)	(86,151)
<b>Operating profit</b>	3	<b>68,022</b>	<b>50,162</b>
<b>Adjusted operating profit</b>		<b>70,507</b>	<b>51,464</b>
Share-based payment charge	23	(2,485)	(1,302)
Finance income	4	117	142
<b>Profit before tax</b>		<b>68,139</b>	<b>50,304</b>
Income tax expense	5	(13,133)	(10,196)
<b>Profit for the year and total comprehensive income for the year</b>		<b>55,006</b>	<b>40,108</b>
Profit attributable to:			
<b>Owners of the Company</b>		<b>55,006</b>	<b>40,108</b>
<b>Earnings per ordinary share (p)</b>			
Basic	16	27.9	20.4
Diluted	16	27.6	20.2
<b>Adjusted earnings per ordinary share (p)</b>			
Basic	16	29.1	21.0
Diluted	16	28.8	20.9

The Statement of Profit or Loss and Other Comprehensive Income has been prepared on the basis that all operations are continuing operations.

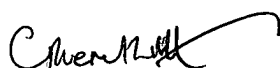
# STATEMENT OF FINANCIAL POSITION

As at 31 July 2018

	Notes	2018 £'000	2017 £'000
<b>Non-current assets</b>			
Property, plant and equipment	7	5,056	5,579
Intangible assets	8	324	504
Deferred tax asset	13	1,436	895
		<b>6,816</b>	<b>6,978</b>
<b>Current assets</b>			
Inventories	9	8,631	6,975
Trade and other receivables	10	205,957	173,506
Cash and cash equivalents	12	72,831	61,643
		<b>287,419</b>	<b>242,124</b>
<b>Total assets</b>		<b>294,235</b>	<b>249,102</b>
<b>Current liabilities</b>			
Trade and other payables	11	(185,264)	(155,174)
Income tax payable		(8,155)	(5,510)
		<b>(193,419)</b>	<b>(160,684)</b>
<b>Net assets</b>		<b>100,816</b>	<b>88,418</b>
<b>Equity</b>			
Issued share capital	15	99	99
Share premium account		4,979	4,664
Other reserves		—	—
Retained earnings		95,738	83,655
<b>Total equity</b>		<b>100,816</b>	<b>88,418</b>

These financial statements were approved by the Board of Directors and authorised for issue on 17 October 2018.

On behalf of the Board



**Graeme Watt**  
Chief Executive



**Graham Charlton**  
Chief Financial Officer

Softcat plc company registration number: 02174990

## STATEMENT OF CHANGES IN EQUITY

For the year ended 31 July 2018

### Equity attributable to owners of the Company

	Share capital £'000	Share premium account £'000	Reserve for <sup>1</sup> own shares £'000	Retained <sup>1</sup> earnings £'000	Total £'000
<b>Balance at 1 August 2016</b>	99	4,454	—	82,811	87,364
Total comprehensive income for the year	—	—	—	40,108	40,108
Share-based payment transactions	—	—	—	1,070	1,070
Dividends paid	—	—	—	(40,904)	(40,904)
Shares issued in the year	—	210	—	—	210
Tax adjustments	—	—	—	253	253
Own share movement during the year	—	—	—	317	317
<b>Balance at 31 July 2017</b>	99	4,664	—	83,655	88,418
Total comprehensive income for the year	—	—	—	55,006	55,006
Share-based payment transactions	—	—	—	1,759	1,759
Dividends paid	—	—	—	(45,321)	(45,321)
Shares issued in the year	—	315	—	—	315
Tax adjustments	—	—	—	529	529
Own share movement during the year	—	—	—	110	110
<b>Balance at 31 July 2018</b>	<b>99</b>	<b>4,979</b>	<b>—</b>	<b>95,738</b>	<b>100,816</b>

#### Notes

1. The balance previously reported in the reserve for own shares as at 1 August 2016 was £3,531,000. This amount relates to shares held by the Employee Benefit Trust (EBT) and has been reclassified to Retained Earnings as all the EBT shares were issued against options previously exercised.

The share capital and share premium accounts represent the nominal value and premium arising on the issue of equity shares.

During the year ended 31 July 2018, 300,000 share options (2017: 200,000) were exercised. Proceeds of £315,000 (2017: £210,000) were realised from the exercise of these share options.

The reserve for own shares refers to ordinary shares held by a Share Incentive Plan (SIP) Trust.

As at 31 July 2018, the SIP trust held 469,843 shares (2017: 515,140) awarded to employees as part of the free share award, subject to service conditions. A further 298,311 shares (2017: 247,462) were held on behalf of employees who have taken part in the Company's voluntary partnership share purchase programme. The SIP also held 29,186 unallocated shares (2017: 14,632).

## STATEMENT OF CASH FLOWS

For the year ended 31 July 2018

	Notes	2018 £'000	2017 £'000
<b>Net cash generated from operating activities</b>	17	<b>57,051</b>	40,971
<b>Investing activities</b>			
Finance income	4	117	142
Purchase of property, plant and equipment	7	(965)	(945)
Purchase of intangible assets	8	(119)	(516)
Proceeds from asset disposals		—	7
<b>Net cash used in investing activities</b>		<b>(967)</b>	(1,312)
<b>Financing activities</b>			
Issue of share capital		315	210
Dividends paid	6	(45,321)	(40,904)
Own share transactions	15	110	317
<b>Net cash used in financing activities</b>		<b>(44,896)</b>	(40,377)
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>11,188</b>	(718)
Cash and cash equivalents at beginning of year	12	61,643	62,361
<b>Cash and cash equivalents at end of year</b>	12	<b>72,831</b>	61,643

## NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 July 2018

### 1 Accounting policies

#### 1.1 Corporate information

The financial statements of Softcat plc for the year ended 31 July 2018 were authorised for issue in accordance with a resolution of the Directors on 17 October 2018. Softcat plc is a public limited company incorporated and domiciled in the United Kingdom and whose shares are publicly traded. The registered office is Solar House, Fieldhouse Lane, Marlow, Buckinghamshire in the United Kingdom.

The principal activity of the Company continued to be that of a value-added IT reseller and IT infrastructure solutions provider to the corporate and public sector markets.

#### 1.2 Basis of preparation

These financial statements have been prepared in accordance with International Financial Reporting Standards ('IFRS') as issued by the International Accounting Standards Board ('IASB') and as adopted by the EU ('Adopted IFRS') and the International Financial Reporting Interpretations Committee ('IFRIC') interpretations and in accordance with those parts of the Companies Act 2006 applicable to companies reporting under IFRS.

These financial statements have been prepared under the historical cost convention and are presented in the Company's presentational and functional currency of Pounds Sterling and all values are rounded to the nearest thousand ('£'000'), except when otherwise stated.

The Company applied all standards and interpretations issued by the IASB that were effective as of 31 July 2018. The accounting policies set out below have, unless otherwise stated, been applied consistently to all periods presented in these financial statements.

#### Going concern

The financial information has been prepared on the going concern basis, which assumes that the Company will continue to be able to meet its liabilities as they fall due for the foreseeable future, being a period of at least twelve months from the date of signing these financial statements. At the date of approving the financial statements, the Directors are not aware of any circumstances that could lead to the Company being unable to settle commitments as they fall due during the twelve months from the date of signing these financial statements.

#### 1.3 Critical accounting judgements and key sources of estimation uncertainty

When applying the Company's accounting policies, management must make a number of key judgements involving estimates and assumptions concerning the future. These estimates and judgements are based on factors considered to be relevant, including historical experience that may differ significantly from the actual outcome. The key assumptions concerning the future and other key sources of estimation uncertainty at the balance sheet date that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year include:

#### Revenue cut-off

The Company's management information systems are configured to recognise revenue upon notification of dispatch from the supplier or distributor which in instances, especially regarding physical shipments, may not be aligned to when the risks and rewards of ownership have been transferred. Under IFRS the point of recognition on physical shipments should be aligned to the date of delivery, not dispatch. Management therefore performs an exercise to capture items that may have been dispatched from distributor but not delivered in the financial year, and subsequently defers the recognition of revenue into the following year. The exercise applied includes assumptions, which management believes are reasonable, in order to identify items that fit the criteria for deferral. Separately, management reviews individual large deals on a case-by-case basis, which reduces the opportunity for error.

The key judgements that are made in the cut-off process are as follows:

- When identifying transactions to review in the cut-off process, management limits the review period to a fixed number of days before and after the period end and validate the date of dispatch.
- Management incorporates a one-day shipment delay assumption onto the sale of hardware items to reflect the time taken between vendor shipment and customer delivery.



## 1 Accounting policies continued

### 1.4 Adoption of new and revised standards

At the date of authorisation of these financial statements, the following standards and interpretations which have not been applied in these financial statements were in issue but not yet effective (and in some cases had not yet been adopted by the EU):

- IFRS 9 Financial Instruments, see below
- IFRS 15 Revenue from Contracts with Customers, see below
- IFRS 16 Leases, see below
- IFRS 2 (Amendments) Share-based Payments
- IFRS 23 Uncertainty over Income Tax Treatments

The Directors anticipate that the adoption of these standards and interpretations in future periods will have no material impact on the financial statements of the Company, except for:

#### IFRS 15 Revenue from Contracts with Customers

Following disclosures in both the 2017 Annual Report and Accounts and 2018 Interim Report, the Company has continued to review its position under the new revenue recognition standard, which is first effective for the Company in the year commencing 1 August 2018. As previously stated, the focus of this review has been on principal versus agent considerations with management concluding that for the remaining aspects of IFRS 15, no material adjustments are expected.

Following a detailed review of the requirements of the standard and the terms in which the Company transacts with its customers, the Company has identified the following key areas which either require a change in reporting or disclosure:

##### *Public sector partner business*

The Company transacts with several partners in the public-sector space where the partners control the customer solution and lead the relationship with the customer. For this business, the margin is significantly lower than the rest of the business and the Company's responsibilities are more aligned to that of an agent. Under IFRS 15 the Company will present revenue from this business as agent and therefore net, as opposed to gross as reported under IAS 18.

The impact of this would be a reduction of approximately 9% of FY18 total Company revenue if reported under IFRS 15.

##### *Software resale*

For software sales excluding cloud-based products, determining whether the Company acts as Principal or Agent becomes a finely balanced judgement with the weighting of individual factors becoming critical in reaching a conclusion. The sale of software involves the provision of consulting services as part of the sale, which constitute an integral part of the performance commitment to the customer and, for this, the customer comes to 'the channel' rather than transacting with vendors directly. The Company structures itself to add value to its customers through the provision of complex technology advice and consulting services, which are far and above that of a purely transactional business, especially for customers in the small and medium sized business segment. For this reason, management have concluded that the Company exhibits sufficient control of the products sold to report revenue as principal and therefore gross. To corroborate this conclusion and to ensure consistent reporting, management have discussed the conclusion with the Company's peers in the European IT reseller space.

The Company is finalising its evaluation of cloud-based software products.

##### *Third party support service revenues*

As with software revenue, determining on principal or agent for third party support service revenues requires significant levels of judgement. Management continue to assess the subtleties of this revenue stream and are yet to reach a conclusion on the treatment under IFRS 15.

Revenue from both third party support services and cloud-based software services, for which the Company is yet to conclude on the appropriate treatment as principal or agent, is in the region of 15-20% of FY18 total Company revenue.

IFRS 15 allows for either a full retrospective approach where all periods presented are adjusted, or a modified approach where only the current period is adjusted. The Company has elected to use the full retrospective approach, and will present both the current year and prior year as adjusted in the FY19 financial statements.

#### IFRS 9 Financial Instruments

IFRS 9 is not expected to have a material impact given the relatively simple nature of the financial instruments held by the Company. The most significant impact of the standard is expected to be on the related disclosures.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 July 2018

### 1 Accounting policies continued

#### 1.4 Adoption of new and revised standards continued

##### IFRS 16 Leases

IFRS 16 specifies how to recognise, measure, present and disclose leases. The standard provides a single lessee accounting model, requiring lessees to recognise assets and liabilities for all leases with the exception of those with a lease term of less than twelve months or where the underlying asset has a low value.

The Company is assessing the impact of this standard, which is effective from periods beginning 1 January 2019.

#### 1.5 Revenue recognition

Revenue from the sale of goods is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes and duty. The Company assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The following specific recognition criteria must also be met before revenue is recognised:

##### Sale of goods

The Company sells hardware and software that is sourced from and delivered by a number of suppliers. Revenue from the sale of these goods is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer, usually on delivery of the goods.

The Company has primary responsibility for the acceptability of goods sold, is exposed to inventory risk during the delivery period, establishes the selling price itself and bears the customer's credit risk. It is therefore considered to be acting as principal in these sales and revenue is measured using the price charged to the customer, excluding sales tax.

##### Provision of services

Softcat sells both its own services and services provided by third parties.

##### • Professional services

The Company sells consultant days which are then fulfilled by either internally employed consultants or consultants provided by third parties. In both instances the number of days will typically be few in number and will complete in a short period following the customer order date. The Company recognises the revenue on these transactions, irrespective of whether they are fulfilled internally or externally, when confirmation has been received from the customer that the work has been satisfactorily completed. When an external party is engaged, the Company will usually be responsible for selecting the appropriate partner to fulfil the days and will always bear full responsibility for the acceptability of the services provided to the customer.

Whether internally or externally fulfilled, the Company has concluded that it is acting as principal in these transactions as it is fully responsible for the acceptability of the services, for determining the price charged to the customer and for the credit risk when collecting gross invoiced values.

In almost all cases there is a short timeframe between a customer order and subsequent delivery of the sold service days. For this reason the Company does not recognise days as they are completed (percentage of completion) as this would not have a material impact. On very rare occasions the Company will sell professional service days which cover an extended period. When this occurs, management will assess the contract individually and if required recognise the revenue on a percentage completion basis using the proportion that costs incurred to date bear to the estimated total costs of the transaction.

##### • Third party vendor maintenance services

The Company sells vendor maintenance services which are provided by third parties. Revenue from such sales is recognised in full at the point of service commencement, as the Company has no ongoing obligation in relation to delivery of the underlying service.

The Company establishes the selling price and is exposed to customer credit risk on this revenue and therefore records revenue gross of the underlying cost.

##### • Hosted managed services

The Company provided hosted managed services to its customers offering Infrastructure as a Service ('IAAS') and managed print services among others.

The Company hosts these services using internal resources and recognises revenue on a straight-line basis over the contractual service period which typically ranges from three months to one year.

## 1 Accounting policies continued

### 1.5 Revenue recognition continued

#### Provision of services continued

##### • *Hosted managed services continued*

The Company is principal in these transactions as it has both managerial involvement and effective control over the services being provided throughout the contract period, together with its involvement in selecting the right product for the customer and its requirements. The Company also has autonomy in setting the sales price and bears all the credit risk when invoicing the customer.

#### Interest income

Interest income is accrued on a time basis by reference to the principal outstanding and at the effective interest rate ('EIR') applicable. EIR is the rate that exactly discounts the estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or liability. Interest income is included in finance income in the income statement.

### 1.6 Cost of sales

The Company recognises cost of sales at the point at which it recognises revenue as explained above. Cost of sales predominantly relates to the cost of goods and services purchased from suppliers and then sold to customers. In addition to these costs, the following elements are also included within cost of sales.

#### Rebates

Included within cost of sales are rebates received from commercial partners. Further details are provided on rebates in 1.7, below.

#### Managed service infrastructure costs

The Company operates its own network operating centre which facilitates the selling of Softcat hosted managed services. The costs of maintaining this ability include, but are not limited to, the rental of space in data warehouses, energy and licensing costs. These costs represent the cost of sale of selling hosted managed service solutions and are included within cost of sales.

#### Marketing costs and related credits

The Company carries out numerous training programmes, activities and schemes that aim to educate its sales force and internally promote the products the business resells. These activities are often funded by the Company's partners. Both the cost of the programmes borne by the Company and the credits received, where applicable, are included within cost of sales.

#### Settlement discounts

Through the normal course of business, the Company receives credits from distributors and suppliers for the prompt settlement of invoices. Softcat recognises these discounts in cost of sales as they are considered to be a reduction in the cost of goods sold.

### 1.7 Rebates

Rebates from suppliers are accounted for in the period in which they are earned and are based on commercial agreements with suppliers. Rebates earned are mainly sales volume related and are generally short term in nature, with rebates earned but not yet received typically relating to the preceding quarter's trading. Rebate income is recognised in cost of sales in the Statement of Profit or Loss and Other Comprehensive Income and rebates earned but not yet received are included within accrued income in the Statement of Financial Position.

### 1.8 Property, plant and equipment

Property, plant and equipment other than freehold land is stated at cost, net of accumulated depreciation and/or impairment losses, if any. If the costs of certain components of an item of property, plant and equipment are significant in relation to the total cost of the item, they are accounted for and depreciated separately. Depreciation is provided at rates calculated to write off the cost of each asset over its expected useful life, as follows:

Freehold buildings	50 years straight line
Building improvements	remaining period of lease – ten years straight line
Computer equipment	three to five years straight line
Fixtures, fittings and equipment	six years straight line
Motor vehicles	three years straight line

Land is not depreciated.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 July 2018

### 1 Accounting policies continued

#### 1.8 Property, plant and equipment continued

An item of property, plant and equipment and any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in the income statement when the asset is derecognised.

Building improvements relate to expenditure on improving both leasehold property and the freehold property of Solar House in Marlow. Improvements to Solar House are depreciated over a ten-year period, which represents their useful life. Leasehold improvements are depreciated over their useful life which is the lesser of the remaining length of the lease or ten years.

The residual values, useful lives and methods of depreciation are reviewed for reasonableness at each financial year end and adjusted for prospectively if appropriate.

#### 1.9 Intangible assets

Intangible assets are measured on initial recognition at cost. Following initial recognition, intangible assets are carried at cost less accumulated amortisation and accumulated impairment losses, if any. Intangible assets with a finite useful life are assessed for impairment whenever there is an indication that the intangible asset may be impaired. Amortisation is provided for at rates calculated to write off the cost of each asset over its expected useful life, as follows:

Computer software	three to five years straight line
-------------------	-----------------------------------

The amortisation expense on intangible assets with finite lives is recognised in the income statement in the expense category consistent with the function of the intangible assets. The amortisation period and the amortisation method are reviewed at least at the end of each reporting period. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the income statement when the asset is derecognised.

#### 1.10 Leases

Rentals payable under operating leases are charged against income on a straight-line basis over the lease term, even if payments are not made on such a basis. Onerous property leases are provided for in the Statement of Financial Position and represent the present value of the onerous element of an operating lease. This arises when the Company ceases to use premises and they are left vacant to the end of the lease.

At inception of an arrangement, the Company determines whether such an arrangement is or contains a lease. At inception or on reassessment of the arrangement that contains a lease, the Company separates payments and other consideration required by such an arrangement into those for the lease and those for other elements on the basis of their relative fair values.

#### 1.11 Inventories

Inventories are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs to sell.

Inventories include goods in transit and other products ordered to fulfil customer orders where the right of ownership is yet to transfer.

#### 1.12 Financial instruments

##### Financial assets

The Company's financial assets include cash and cash equivalents and trade and other receivables. All financial assets are recognised when the Company becomes party to the contractual provisions of the instrument.

##### i) Trade receivables

Trade receivables are recognised and carried at original invoice amount less provision for impairment. Trade receivables do not carry interest.

A provision for impairment of trade receivables is established when there is objective evidence that the Company will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is determined as the difference between the asset's carrying amount and the present value of estimated future cash flows, and is recognised in the income statement in administrative expenses.

##### ii) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and in hand, call deposits and bank overdrafts.

## 1 Accounting policies continued

### 1.12 Financial instruments continued

#### Financial liabilities

Financial liabilities are classified according to the substance of the contractual arrangements entered into. The Company's financial liabilities comprise trade and other payables. All financial liabilities are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

#### i) Trade payables

Trade payables are initially measured at fair value. Trade payables due after one year are measured at amortised cost, using the effective interest rate method.

### 1.13 Pensions

The pension costs charged in the financial statements represent the contributions payable by the Company during the year on the defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The amounts charged to the income statement represent the contributions payable to the scheme in respect of the accounting period and represent the full extent of the Company's liability.

### 1.14 Deferred taxation

Deferred tax is the tax expected to be payable or recoverable on differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit and is accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognised for all taxable temporary differences and deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Such assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the tax profit nor the accounting profit.

The carrying amount of deferred tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax is calculated at the tax rates that are expected to apply in the period when the liability is settled or the asset is realised. Deferred tax is charged or credited in the income statement, except when it relates to items charged or credited directly to equity, in which case the deferred tax is also dealt with in equity.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

### 1.15 Current taxation

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the Statement of Profit or Loss and Other Comprehensive Income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

### 1.16 Foreign currency translation

Monetary assets and liabilities denominated in foreign currencies are translated into Pounds Sterling at the rates of exchange ruling at the balance sheet date. Transactions in foreign currencies are recorded at the rate ruling at the date of the transaction. All differences are taken to the income statement.

### 1.17 Share-based payments

During the year the Company operated the following equity-settled share option schemes:

#### Company Share Option Plan ('CSOP')

The CSOP provides share options for nominated employees. The purchase price is set at a mid-market price on the date of grant. The CSOP operates both approved and unapproved schemes with vesting dependent on continued employment with the Company. Options typically vest between one and three years and lapse after ten years from the date of grant.

The fair value of the CSOP options is estimated at the date of grant using the Black-Scholes model and is charged as an expense in the income statement over the vesting period with a corresponding increase in equity.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 July 2018

### 1 Accounting policies continued

#### 1.17 Share-based payments continued

##### Share Incentive Plan ('SIP')

The Company operates a SIP for employees who were awarded free shares following the initial public offering in November 2015. Shares were allocated to employees on the basis of length of service. Free shares awarded to an employee under the SIP are subject to a holding period ending not earlier than the third anniversary and not later than the fifth anniversary of the date on which beneficial interest in the relevant ordinary shares is conferred by the SIP Trustee to the employee.

The fair value of the SIP shares is determined by the share price at date of grant, on 9 December 2015, and the number of shares expected to be transferred following the three-year vesting period. The assumption used for expected leavers within three years from the date of award has been calculated with reference to historical employee retention rates. The resulting fair value charge is charged as an expense in the income statement over the vesting period with a corresponding increase in equity.

In addition, the Company's voluntary partnership share purchase programme, which is open to all employees, is administered through the SIP.

##### Long Term Incentive Plan ('LTIP')

Details in relation to the Softcat Long Term Incentive Plan awards to Executive Directors in 2017 are included in the Directors' Remuneration Report on page 58.

The awards will only vest and become exercisable upon achievement of performance targets, linked to earnings per share and total shareholder return, as well as being conditional upon continued employment with the Company. The fair value is measured using a suitable valuation model where appropriate. Non-market vesting conditions are taken into account by adjusting the number of LTIP shares expected to vest at each reporting date so that, ultimately, the cumulative amount recognised over the vesting period is based on the number of LTIP shares that will eventually vest. Market vesting conditions are factored into the fair value of the LTIP shares granted. The cumulative expense is not adjusted for failure to meet a market vesting condition. The resulting fair value charge is charged as an expense in the income statement over the vesting period with a corresponding increase in equity.

##### Deferred shares

One-third of the Executive Director's annual bonus is paid in deferred shares. The Company accrues for the cost of the non-cash bonus over a four-year period, including the year in which the bonus targets are assessed and the following three-year vesting period. Employer's National Insurance contributions are payable, on exercise, on the market value of the award and are accrued for within the share-based payments expense in the profit or loss.

##### Employee Benefit Trust and SIP Trust

The Company operates an Employee Benefit Trust and an SIP Trust for the benefit of eligible employees. The Company recognises the assets and liabilities of these trusts as its own until such assets held vest unconditionally with identified beneficiaries. The Company meets all costs incurred by the trusts.

#### 1.18 Alternative performance measures

When presenting the Company's reported operating results, an alternative performance measure is presented to provide readers with additional financial information that is regularly reviewed by management. However, this additional information is not uniformly defined by all companies including those in the Company's industry. Accordingly, it may not be comparable with similarly titled measures and disclosures by other companies. Additionally, certain information presented is derived from amounts calculated in accordance with IFRS but is not itself an expressly permitted GAAP measure. Such alternative performance measures should not be viewed in isolation or as alternatives to the equivalent GAAP measures.

##### Adjusted operating profit

Adjusted operating profit is a non-GAAP measure which excludes the impact of share-based payment charges. Historically, these charges have been volatile as they were related to large and irregular share option awards. Following the IPO in 2015, the Company has been regularly issuing share-based remuneration to certain employees and these issues typically have a three-year vesting period over which a charge is recognised. As such, from the date of IPO, these charges have been gradually increasing to a broadly consistent level, when three years' worth of awards are in issue and are being expensed to share-based payments. Management expects this broadly consistent level to be reached in the year ended 31 July 2019 and as such intends to remove share-based payment charges as an adjusting item in the next financial year.

## 1 Accounting policies continued

### 1.19 Company accounts

Softcat plc is a single entity with no subsidiary undertakings. The Employee Benefit and SIP Trusts, which hold shares on behalf of employees, are not consolidated within the results of Softcat plc and instead are treated as extensions of the Company.

## 2 Segmental information

The information reported to the Company's Chief Executive, who is considered to be the chief operating decision maker for the purposes of resource allocation and assessment of performance, is based wholly on the overall activities of the Company. The Company has therefore determined that it has only one reportable segment under IFRS 8, which is that of 'value-added IT reseller and IT infrastructure solutions provider'. The Company's revenue and results and assets for this one reportable segment can be determined by reference to the Statement of Profit or Loss and Other Comprehensive Income and Statement of Financial Position. An analysis of revenues by product, which form one reportable segment, is set out below:

Revenue by type:	2018 £'000	2017 £'000
Software	563,709	414,781
Hardware	366,877	287,424
Services	151,092	130,281
	<b>1,081,678</b>	<b>832,486</b>

The total revenue for the Company for the year has been derived from its principal activity as an IT reseller. Substantially all of this revenue relates to trading undertaken in the United Kingdom.

## 3 Operating profit

Operating profit is stated after charging:	2018 £'000	2017 £'000
Depreciation of tangible assets	1,460	1,641
Amortisation of intangible assets	299	367
Operating lease rentals	1,123	618
Foreign exchange loss	400	87
Inventories expensed in the year	307,628	241,410
<b>Auditor's remuneration</b>		
Fees payable for the audit of the Company's annual accounts	243	190
Fees payable for audit-related services	24	20
<b>Total for statutory audit services</b>	<b>267</b>	<b>210</b>
Fees payable for non-audit-related services	13	—
<b>Total for non-audit-related services</b>	<b>13</b>	<b>—</b>

## 4 Finance income

	2018 £'000	2017 £'000
Bank interest	117	142

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 July 2018

### 5 Income tax

The major components of the income tax expense for the years ended 31 July 2018 and 31 July 2017 are:

	2018 £'000	2017 £'000
<b>Statement of profit or loss</b>		
Current income tax charge in the year	13,515	10,393
Adjustment in respect of current income tax of previous years	(119)	88
<b>Total current income tax charge</b>	<b>13,396</b>	<b>10,481</b>
<b>Deferred tax</b>		
Current year	(332)	(269)
Adjustment in respect of previous periods	2	(61)
Effect of changes in tax rates	67	45
<b>Deferred tax credit</b>	<b>(263)</b>	<b>(285)</b>
<b>Total tax charge</b>	<b>13,133</b>	<b>10,196</b>
<b>Reconciliation of total tax charge</b>		
Reconciliation of tax expense and accounting profit multiplied by the Company's domestic tax rate for 2018 and 2017:		
Profit on ordinary activities before taxation	68,139	50,304
Profit on ordinary activities before taxation multiplied by standard rate of UK corporation tax of 19% (2017: 19.67%)	12,946	9,895
Effects of:		
Non-deductible expenses	238	229
Adjustment to previous periods	(117)	27
Effect of changes in tax rates	66	45
	187	301
<b>Income tax charge reported in profit or loss</b>	<b>13,133</b>	<b>10,196</b>

In the year ended 31 July 2018, £251,502 (2017: £69,000) of current tax and £277,608 (2017: £183,789) of deferred tax was credited to equity.

### Changes affecting the future tax charge

The Finance Act 2015 included legislation to reduce the main rate of UK corporation tax from 20% to 19% from 1 April 2017 and to 17% from 1 April 2020. The 19% rate has been utilised in the financial statements for the purposes of calculating deferred tax assets and liabilities (2017: 19%).



## 6 Dividends

	2018 £'000	2017 £'000
<b>Declared and paid during the year</b>		
Special dividend on ordinary shares (13.5p per share (2017: 14.2p))	26,726	28,060
Final dividend on ordinary shares (6.1p per share (2017: 3.6p))	12,064	7,114
Interim dividend on ordinary shares (3.3p per share (2017: 2.9p))	6,531	5,730
	<b>45,321</b>	<b>40,904</b>

The Board recommends a final dividend of 8.8p per ordinary share and a special dividend of 15.1p per ordinary share to be paid on 14 December 2018 to all ordinary shareholders who were on the register of members at the close of business on 2 November 2018. Shareholders will be asked to approve the final and special dividends at the AGM on 6 December 2018.

## 7 Property, plant and equipment

	Freehold land and buildings £'000	Building improvements £'000	Computer equipment £'000	Fixtures, fittings and equipment £'000	Motor vehicles £'000	Total £'000
<b>Cost</b>						
At 1 August 2016	2,649	1,926	7,307	1,135	268	13,285
Additions	—	260	455	196	34	945
Disposals	—	(113)	(68)	—	(71)	(252)
At 31 July 2017	2,649	2,073	7,694	1,331	231	13,978
Additions	—	269	458	207	31	965
Disposals	—	—	(40)	—	—	(40)
<b>At 31 July 2018</b>	<b>2,649</b>	<b>2,342</b>	<b>8,112</b>	<b>1,538</b>	<b>262</b>	<b>14,903</b>
<b>Depreciation</b>						
At 1 August 2016	100	662	5,312	624	196	6,894
On disposals	—	(33)	(32)	—	(71)	(136)
Charge for the year	25	324	1,070	175	47	1,641
At 31 July 2017	125	953	6,350	799	172	8,399
On disposals	—	—	(12)	—	—	(12)
Charge for the year	25	373	833	189	40	1,460
<b>At 31 July 2018</b>	<b>150</b>	<b>1,326</b>	<b>7,171</b>	<b>988</b>	<b>212</b>	<b>9,847</b>
<b>Net book value</b>						
<b>At 31 July 2018</b>	<b>2,499</b>	<b>1,016</b>	<b>941</b>	<b>550</b>	<b>50</b>	<b>5,056</b>
At 31 July 2017	2,524	1,120	1,344	532	59	5,579

Freehold land amounting to £1.4m (2017: £1.4m) has not been depreciated.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 July 2018

### 8 Intangible assets

	Computer software £'000
<b>Cost</b>	
At 1 August 2016	1,712
Additions	516
Disposals	(355)
At 31 July 2017	1,873
Additions	119
Disposals	—
<b>At 31 July 2018</b>	<b>1,992</b>
<b>Amortisation</b>	
At 1 August 2016	1,045
Charge for the year	367
Disposals	(43)
At 31 July 2017	1,369
Charge for the year	299
Disposals	—
<b>At 31 July 2018</b>	<b>1,668</b>
<b>Net book value</b>	
<b>At 31 July 2018</b>	<b>324</b>
At 31 July 2017	504

The amortisation of intangible assets is included in administrative expenses within the income statement. See note 3.

### 9 Inventories

	2018 £'000	2017 £'000
Finished goods and goods for resale	8,631	6,975

The amount of any write down of inventory recognised as an expense in the year was £nil (2017: £nil).

### 10 Trade and other receivables

	2018 £'000	2017 £'000
Trade and other receivables	190,730	162,089
Provision against receivables	(1,867)	(1,263)
Net trade receivables	188,863	160,826
Other debtors	40	59
Prepayments	6,110	5,415
Accrued income	10,944	7,206
	<b>205,957</b>	<b>173,506</b>

## 10 Trade and other receivables continued

The Directors consider that the carrying amount of trade and other receivables approximates to their fair value.

The ageing profile of trade receivables was as follows:

	2018 £'000	Related provision £'000	Net £'000	2017 £'000	Related provision £'000	Net £'000
Current	137,369	(971)	136,398	112,927	(396)	112,531
1-30 days	37,270	(203)	37,067	34,856	(149)	34,707
31-60 days	8,381	(92)	8,289	8,537	(90)	8,447
61-90 days	3,537	(123)	3,414	2,764	(172)	2,592
Over 90 days	4,173	(478)	3,695	3,005	(456)	2,549
<b>Total due</b>	<b>190,730</b>	<b>(1,867)</b>	<b>188,863</b>	<b>162,089</b>	<b>(1,263)</b>	<b>160,826</b>

The Company provides against its trade receivables where there are serious doubts and objective evidence as to future recoverability based on prior experience, on assessment of the current economic climate and on the length of time that the receivable has been overdue. Further details on how the Company manages its credit risk can be found in note 19.

Movement in the provision for trade receivables was as follows:

	2018 £'000	2017 £'000
Balance at beginning of year	1,263	1,265
Increase for trade receivables regarded as potentially uncollectable	1,707	1,231
Decrease in provision for trade receivables recovered, or written off, during the year	(1,103)	(1,233)
<b>Balance at end of year</b>	<b>1,867</b>	<b>1,263</b>

See note 19 for details on how the Company approaches its exposure to credit risk.

The Company does not hold collateral as security.

## 11 Trade and other payables

	2018 £'000	2017 £'000
Trade payables	131,115	100,312
Other taxes and social security	9,642	12,153
Accruals	33,291	28,708
Deferred income	11,216	14,001
	<b>185,264</b>	<b>155,174</b>

The Directors consider that the carrying amount of trade and other payables approximates to their fair value.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 July 2018

### 12 Cash at bank and in hand

	2018 £'000	2017 £'000
Cash at bank and in hand	72,831	61,643

Cash and cash equivalents comprise cash at bank and cash in hand. Cash at bank earns interest at floating rates based on daily bank deposit rates. All cash held is accessible and is not restricted for any period of time.

### 13 Deferred tax

The deferred tax asset is made up as follows:

	2018 £'000	2017 £'000
Accelerated capital allowances	81	11
Share-based payments	1,020	591
Other temporary differences	335	293
<b>Deferred tax assets</b>	<b>1,436</b>	<b>895</b>

	2018 £'000	2017 £'000
<b>Reconciliation of deferred tax asset</b>		
Balance at 31 July 2017 (PY: 31 July 2016)	895	426
Adjustment in respect of previous years	(2)	61
Profit and loss account	265	224
Charge to equity	278	184
<b>Balance at 31 July 2018 (PY: 31 July 2017)</b>	<b>1,436</b>	<b>895</b>

The Company recognises all deferred tax movements in the year within the income statement, except for £277,608 (2017: £183,789) credited to equity in relation to deferred tax movements on share-based payments.

The Company offsets tax assets and liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same tax authority.

### 14 Pension and other post-retirement benefit commitments

#### Defined contribution pension scheme

The Company operates a defined contribution pension scheme. The assets of the scheme are held separately from those of the Company in an independently administered fund. The pension cost charge represents contributions payable by the Company to the fund. At the year end pension contributions of £190,209 (2017: £149,232) were outstanding.

	2018 £'000	2017 £'000
Contributions payable by the Company for the year	997	812

## 15 Share capital

### Authorised share capital

In accordance with the Companies Act 2006, the Company no longer has an authorised share capital. The Company's Articles of Association has been amended to reflect this change.

	2018 £'000	2017 £'000
<b>Allotted and called up</b>		
197,950,695 (2017: 197,606,143) Ordinary shares of 0.05p each	99	99
18,933 (2017: 18,933) Deferred shares <sup>1</sup> of 1p each	—	—
	<b>99</b>	<b>99</b>

**Note:**

1. At 31 July 2018 deferred shares had an aggregate nominal value of £189.33 (2017: £189.33).

In the year ended 31 July 2018, 300,000 (2017: 200,000) new ordinary shares were issued to satisfy the exercise of share options and 44,552 ordinary shares (FY17: nil) were issued to satisfy exercises under the deferred share bonus plan.

No issued ordinary shares of £0.0005 each were unpaid at 31 July 2018 (2017: nil unpaid).

All ordinary shares rank pari passu in all respects.

Deferred shares do not have rights to dividends and do not carry voting rights.

### Own share transactions

In the year ended 31 July 2018 the SIP Trust returned £110,000 (2017: £317,000) to the Company through share recycling.

## 16 Earnings per share

	2018 p	2017 p
<b>Earnings per share</b>		
Basic	27.9	20.4
Diluted	27.6	20.2
<b>Adjusted earnings per share</b>		
Basic	29.1	21.0
Diluted	28.8	20.9

The calculation of the basic and adjusted earnings per share and diluted earnings per share is based on the following data:

	2018 £'000	2017 £'000
<b>Earnings</b>		
Earnings for the purposes of earnings per share being profit for the year	55,006	40,108
<b>Adjusted earnings</b>		
Profit for the year	55,006	40,108
Share-based payment charge	2,485	1,302
Tax effect of adjusting items	(142)	(47)
Earnings for the purposes of adjusted earnings per share	57,349	41,363

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 July 2018

### 16 Earnings per share continued

The weighted average number of shares is given below:

	2018 '000	2017 '000
Number of shares used for basic earnings per share	197,338	196,959
Number of shares deemed to be issued at nil consideration following exercise of share options	1,668	1,137
<b>Number of shares used for diluted earnings per share</b>	<b>199,006</b>	<b>198,096</b>

Adjusted earnings per share represents basic earnings per share adjusted for the impact of non-recurring items and share-based payment expense.

### 17 Notes to the Statement of Cash Flows

Reconciliation of operating profit to net cash inflow from operating activities

	2018 £'000	2017 £'000
Operating profit	68,022	50,162
Depreciation of property, plant and equipment	1,460	1,641
Amortisation of intangibles	299	367
Loss on disposal of fixed assets	28	109
Loss on disposal of intangible assets	—	312
Cost of equity-settled employee share schemes	1,759	1,070
<b>Operating cash flow before movements in working capital</b>	<b>71,568</b>	<b>53,661</b>
Increase in inventory	(1,656)	(2,364)
Increase in debtors	(32,451)	(40,719)
Increase in creditors	30,090	39,647
<b>Cash generated from operations</b>	<b>67,551</b>	<b>50,225</b>
Income taxes paid	(10,500)	(9,254)
<b>Net cash from operating activities</b>	<b>57,051</b>	<b>40,971</b>

### 18 Financial commitments

#### Operating leases

At 31 July 2018, operating leases represent short-term leases for office space in Marlow, London, Manchester, Bristol, Leeds, Glasgow, Southampton and Dublin.

Future minimum rentals payable under non-cancellable operating leases for office buildings are as follows:

	Office buildings	
	2018 £'000	2017 £'000
Operating lease payments due:		
Within one year	805	653
Between two and five years	1,609	801
	<b>2,414</b>	<b>1,454</b>

## 19 Financial instruments and financial risk management

The Company's principal financial liabilities comprise trade and other payables. The primary purpose of these financial liabilities is to finance the Company's operations. The Company's principal financial assets comprise trade and other receivables and cash that derive directly from its operations.

### Financial assets

The financial assets of the Company were as follows:

	2018 £'000	2017 £'000
Cash at bank and in hand	72,831	61,643
Trade and other receivables	205,957	173,506
	<b>278,788</b>	<b>235,149</b>

The Directors consider that the carrying amount for all financial assets approximates to their fair value.

### Financial liabilities

The financial liabilities of the Company were as follows:

	2018 £'000	2017 £'000
Trade payables	(131,115)	(100,312)
Accruals	(33,291)	(28,708)
	<b>(164,406)</b>	<b>(129,020)</b>

The Directors consider that the carrying amount for all financial liabilities approximates to their fair value.

### Financial risk management

The Company is exposed to interest rate risk, foreign currency risk, credit risk and liquidity risk. The Company's senior management oversees the management of these risks and ensures that the Company's financial risk taking is governed by appropriate policies and procedures and that financial risks are identified, measured and managed in accordance with Company policies and Company risk appetite.

The Board of Directors reviews and agrees the policies for managing each of these risks, which are summarised below:

#### Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. At the year end the Company has no borrowings and therefore the exposure to interest rate risk is limited to the rates received as interest income on cash deposits. The Company accepts the risk of losing interest on deposits due to interest rate reductions. Due to the limited exposure to interest rate risk no sensitivity analysis has been prepared.

#### Foreign currency risk

The Company is exposed to foreign currency risk when dealing with customers and suppliers who wish to be billed in a currency other than Pounds Sterling. As the vast majority of transactions are with UK customers and are denominated in Pounds Sterling, the Directors consider this foreign currency risk to be small and do not hedge this risk due to the limited exposure. The level of foreign currency transactions is monitored closely to ensure that the level of exposure is manageable. Due to the limited exposure to currency risk no sensitivity analysis has been prepared.

#### Credit risk

Credit risk is the risk that a counterparty will not meet its obligations under a financial instrument or customer contract, leading to a financial loss. The Company is exposed to credit risk from its operating activities (primarily for trade receivables) and from its financing activities, including deposits with banks and financial institutions.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 July 2018

### 19 Financial instruments and financial risk management continued

#### Financial risk management continued

##### Trade receivables

Credit risk from trade receivables is managed in accordance with the Company's established policy, procedures and control relating to customer credit risk management. A customer's credit quality is assessed based on an extensive credit rating scorecard and individual credit limits are defined in accordance with this assessment.

Outstanding customer receivables are regularly monitored. At 31 July 2018, the Company had 1,196 accounts (2017: 1,013) that owed the Company more than £25,000 each. These accounts accounted for approximately 16% (2017: 14%) of total customers and 85% (2017: 84%) of the total value of amounts receivable. There were 394 customers (2017: 297 customers) with balances greater than £100,000 accounting for just over 5% (2017: 4%) of the total number of receivable accounts and 65% (2017: 63%) of the total value of amounts receivable.

The requirement for impairment is analysed at each reporting date. The calculation is based on actual incurred historical data. The maximum exposure to credit risk at the reporting date is the carrying value of each class of financial assets. The Company does not hold collateral as security. The Company evaluates the concentration of risk with respect to trade receivables as low as there is limited reliance on single, or a few, customers; instead, sales are typically small in size but large in volume as are the number of customers. This is illustrated by the fact that no more than 4% of receivables are due from any one customer at the year end.

##### Financial instruments and cash deposits

Credit risk from cash balances with banks and financial institutions is managed in accordance with Company policy. The Company has significant cash reserves which are accessible immediately and without restriction. Credit risk with respect to cash deposits is managed by carefully selecting the institutions with which cash is deposited and spreading its deposits across more than one such institution to ease concentration risk.

##### Liquidity risk

The Company generates positive cash flows from operating activities and these fund short-term working capital requirements. The Company aims to maintain significant cash reserves and none of its cash reserves are subject to restrictions. Access to cash is not restricted and all cash balances could be drawn upon immediately if required. The Board carefully monitors the levels of cash deposits and is comfortable that for normal operating requirements, no external borrowings are currently required.

The following table details the Company's remaining contractual maturity for its financial liabilities based on undiscounted contractual payments:

	Within 1 year £'000	1 to 2 years £'000	2 to 5 years £'000	Over 5 years £'000	Total £'000
<b>2018</b>					
Trade payables	(131,115)	—	—	—	(131,115)
Accruals	(33,291)	—	—	—	(33,291)
	<b>(164,406)</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(164,406)</b>
<b>2017</b>					
Trade payables	(100,312)	—	—	—	(100,312)
Accruals	(28,708)	—	—	—	(28,708)
	<b>(129,020)</b>	<b>—</b>	<b>—</b>	<b>—</b>	<b>(129,020)</b>

In both the current year and the prior year, materially all of the financial liabilities above have a contractual settlement date of between zero and three months.

##### Capital risk management

The Company manages its capital to ensure that it will be able to continue as a going concern while also maximising the operating potential of the business. The capital structure of the Company consists of equity attributable to equity holders of the Company, comprising issued capital, reserves and retained earnings as disclosed in the Company Statement of Changes in Equity. The Company is not subject to externally imposed capital requirements.



## 20 Capital commitments

At 31 July 2018 the Company had £nil capital commitments (2017: £nil).

## 21 Directors' remuneration

	2018 £'000	2017 £'000
Remuneration for qualifying services	1,577	1,418
Company pension contributions to defined contribution schemes	6	5
	<b>1,583</b>	<b>1,423</b>

During the year ended 31 July 2018 the Directors of the Company were awarded a total of 140,938 LTIP shares (2017: 295,896) at an average exercise price of £nil (2017: £nil) and 62,729 shares (2017: nil) under the FY17 Deferred Share Bonus Plan.

The number of Directors for whom retirement benefits are accruing under defined contribution schemes amounted to one (2017: one). The number of Directors who are entitled to receive shares under long-term incentive schemes during the year was three (2017: two).

Gains on share options exercised in the year were £296,271 (2017: £nil).

Share-based payment charges include £1,167,424 (2017: £452,508) in respect of Directors.

## 22 Employees

### Number of employees

The average monthly number of employees (including Directors) during the year was:

	2018 Number	2017 Number
Sales	799	714
Services	148	147
Administration	181	166
	<b>1,128</b>	<b>1,027</b>

### Employment costs

	2018 £'000	2017 £'000
Wages and salaries	73,325	59,817
Social security costs	8,763	7,231
Other pension costs	997	813
Share option charge	1,759	1,070
	<b>84,844</b>	<b>68,931</b>

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 July 2018

### 23 Share option schemes

The Company operates a Company Share Option Plan ('CSOP') for nominated employees, a Long Term Incentive Plan ('LTIP') for Executive Directors and senior management and a Share Incentive Plan ('SIP') for all employees.

The Company recognised the following expenses related to equity-settled share-based payment transactions:

	2018 £'000	2017 £'000
CSOP	2	29
LTIP	1,300	584
SIP	457	457
	1,759	1,070
Employer's National Insurance contributions payable on all plans	726	232
	2,485	1,302

All options vest at the end of the vesting period relating to that option or on the occurrence of a contingent event. This includes substantial sale or substantial business asset sale. If the options remain unexercised after a period of ten years from the date of grant, the options expire. Furthermore, the vesting of these share options is dependent on continued employment.

Following the public listing of shares in the Company, share options become readily convertible assets for which the Company is liable for employer's National Insurance contributions. The Company accrues for National Insurance contributions on a straight-line basis from the date of award to the vesting date.

#### Company Share Option Plan

The CSOP provides share options for nominated employees. The purchase price is set at a mid-market price on the date of grant. Options typically vest between one and three years and lapse after ten years from the date of grant. Options are forfeited if the employee leaves the Company before the options vest.

At 31 July 2018, share options outstanding under the CSOP were as follows:

Option term (vesting date to expiry)	Exercise price £	No. of shares under options as at 31 July 2018	No. of shares under options as at 31 July 2017
August 2017 to August 2025	1.05	—	300,000
Total		—	300,000

All CSOP share options outstanding at the year end are in respect of unapproved schemes. No CSOP options were granted in the year (2017: nil). The fair value of CSOP options granted was calculated using the Black-Scholes model, incorporating relevant assumptions for weighted average share price, weighted average exercise price, expected volatility, expected dividend yield, risk-free interest rate and share option term. The resultant fair value was then spread over the relevant performance period for each tranche of share options.

During the year 300,000 (FY17: 200,000) CSOP options were exercised with an average weighted share price at the date of exercise of £5.45 (2017: £4.09).

## 23 Share option schemes continued

### Long Term Incentive Plan

The LTIP provides share awards to Executive Directors and senior management.

#### Executive Directors

Details in relation to the Softcat Long Term Incentive Plan awards to Executive Directors are included in the Directors' Remuneration Report on page 58.

#### Share awards

During the year 140,938 (2017: 295,896) share awards related to LTIP schemes were issued to two Executive Directors at nil exercise price with a performance period of three years. The fair value of these awards was £707,283 (2017: £662,008). Performance conditions are linked to earnings per share and total shareholder return over the vesting period. The EPS linked element of the LTIPs awarded in the year were valued using the Black-Scholes model and a Monte-Carlo simulation was used for the TSR linked element of the award. The following assumptions were used:

	31 July 2018		31 July 2017	
	EPS	TSR	EPS	TSR
Proportion of LTIP award	50%	50%	50%	50%
Share price (£)	5.42/6.56	5.42/6.56	2.97	2.97
Weighted average exercise price at grant date (£)	—	—	—	—
Risk-free interest rate	0.5%	0.5%	0.5%	0.5%
Expected volatility	43%/45%	43%/45%	31%	n/a
Performance period (years)	3	3	3	3

In the year Martin Hellawell left the position of Chief Executive Officer and became Chairman. The Remuneration Committee concluded that all outstanding LTIP share awards would be pro-rated for the portion of the performance period that Martin Hellawell was in position as Chief Executive Officer. As a result, 149,615 LTIP share awards were forfeited in the year (2017: nil).

#### Deferred Share Bonus Plan

One-third of the Executive Directors' annual bonus is paid in deferred shares. In the year 62,729 (2017: nil) deferred shares relating to the FY17 Deferred Share Bonus Plan were issued to two Executive Directors with a £nil exercise price and a further vesting period of three years. The fair value is calculated using the share price on the date of grant and the number of shares awarded. The fair value of deferred shares issued in the year is £339,991.

In the year the Remuneration Committee approved the early vesting of 44,552 deferred bonus shares relating to FY17 as Martin Hellawell was considered a good leaver. These shares had a £nil exercise price.

#### Senior management

An award of 254,837 (2017: 288,244) shares was made to members of the Executive Leadership Team and other senior management in the year. These shares had an exercise price of £nil at the date of grant and a performance period of three years. The fair value of these awards was £1,185,757 (2017: £845,649). As the exercise price of the options awarded in the year was £nil, fair value has been calculated by multiplying the number of shares issued by the share price on the date of grant, adjusted for an expected forfeiture rate. The resultant fair value is then recognised over the performance period.

During the year 19,852 shares (2017: nil) were forfeited as members of senior management left the business prior to completion of the vesting period.

The weighted average remaining contractual life of all LTIP awards is 8.44 years.

## NOTES TO THE FINANCIAL STATEMENTS CONTINUED

For the year ended 31 July 2018

### 23 Share option schemes continued

#### Share Incentive Plan

The Company awarded free shares to its employees following the initial public offering in November 2015. Shares were allocated to employees on the basis of length of service. Free shares awarded to an employee under the SIP are subject to a minimum holding period of three years.

Historical employee attrition rates have been used to calculate the expected number of shares expected to vest. The resulting income statement charge is spread over the three-year vesting period with a corresponding entry in equity.

In the year 1,204 free shares (2017: nil) were exercised by Martin Hellawell who was a good leaver and was permitted to exercise prior to the completion of the three-year vesting period. The average weighted share price at the date of exercise was £6.65. In total, 44,093 free shares were forfeited in the year. The weighted average remaining contractual life of free shares is 0.36 years.

In addition, the Company's voluntary partnership share purchase programme, which is open to all employees, is administered through the SIP.

#### All share-based payment arrangements

The number and weighted average exercise price of all share-based payment arrangements (including LTIP) are as follows:

	Weighted average exercise price £	No. of shares as at 31 July 2018	Weighted average exercise price £	No. of shares as at 31 July 2017
Outstanding at 1 August		1,749,591		1,429,183
Granted during the year	—	458,504	—	584,120
Forfeited during the year	—	(213,560)	—	(63,712)
Exercised during the year	0.91	(345,756)	1.05	(200,000)
Outstanding at 31 July		1,648,779		1,749,591
Exercisable at 31 July		—		—

The fair value of share-based payment arrangements granted in the year was £2,233,031 (2017: £1,601,907), relating entirely to LTIP awards.

The weighted average remaining contractual life of share-based payment arrangements at the year end was 8.14 years.

### 24 Post-balance sheet events

#### Dividend

The Board recommends a final dividend of 8.8p per ordinary share and a special dividend of 15.1p per ordinary share to be paid on 14 December 2018 to all ordinary shareholders who were on the register of members at the close of business on 2 November 2018. Shareholders will be asked to approve the final and special dividends at the AGM on 6 December 2018.

## 25 Related party relationships and transactions

### Transactions with key management personnel

The remuneration of key management personnel, which consists of persons who have been deemed to be discharging managerial responsibilities, is set out below in aggregate for each of the categories specified in IAS 24 Related Party Disclosures.

	2018 £'000	2017 £'000
Short-term employee benefits	2,013	2,018
Post-employment benefits	12	11
	<b>2,025</b>	<b>2,029</b>

Key management personnel received a total of 226,815 share awards (2017: 334,275) at a weighted average exercise price of £nil (2017: £nil).

The amounts disclosed in the table are the amounts recognised as an expense during the reporting period related to key management personnel.

Share-based payment charges include £1,252,616 (2017: £488,103) in respect of key management personnel.

### Dividends to Directors

	2018 £'000	2017 £'000
Graeme Watt	—	—
Martin Hellawell	3,326	3,060
Graham Charlton	—	—
Brian Wallace	198	178
Vin Murria	67	6
Lee Ginsberg	5	4
Peter Ventress	11	6
	<b>3,607</b>	<b>3,254</b>

Graham Charlton received dividends of £315 in the year ended 31 July 2018 (2017: £182). Graeme Watt received £nil dividends in the year (2017: £nil).

## COMPANY INFORMATION AND CONTACT DETAILS

### Company number

02174990

### Registered office

Softcat plc, Solar House, Fieldhouse Lane, Marlow,  
Buckinghamshire SL7 1LW, United Kingdom

Tel: 01628 403 403

### Website

[www.softcat.com](http://www.softcat.com)

### Directors

Martin Hellawell (Chairman)

Graeme Watt (CEO)

Graham Charlton (CFO)

Lee Ginsberg (SID)

Peter Ventress (Independent NED)

Vin Murria (Independent NED)

### Company Secretary

Winifred Chime

### Investor relations contact

[investors@softcat.com](mailto:investors@softcat.com)

### Registrar

Link Asset Services

The Registry, 34 Beckenham Road, Beckenham, Kent BR3 4TU,  
United Kingdom

[enquiries@linkgroup.co.uk](mailto:enquiries@linkgroup.co.uk)

Tel: 0371 664 0300

Calls cost 12p per minute plus your phone company's access charge. Calls outside the United Kingdom will be charged at the applicable international rate. Lines are open between 9.00-17.30, Monday to Friday excluding public holidays in England and Wales.

### Corporate advisers

#### Auditor

Ernst & Young LLP

1 More London Place

London

SE1 2AF

#### Joint corporate broker

Jefferies International

68 Upper Thames Street

London

EC4V 3BJ

Credit Suisse International

17 Columbus Courtyard

London

E14 4DA

#### Legal advisers

Ashurst LLP

Broadwalk House

5 Appold Street

London

EC2A 2HA

